HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

2018 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2018	2017	YoY change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	(%)
Continuing operations:			
Revenue	**1,344,045**	1,056,753	27.2
Profit/(loss) for the period from continuing operations	**34,054**	(8,185)	516.1
Discontinued operations:			
Loss for the period from discontinued operations (see note 7)	**–**	(119,432)	N/A
Profit/(loss) attributable to equity shareholders	**30,812**	(195,655)	115.7

INTERIM RESULTS

The board of directors (the "Board") of Hengdeli Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

		Six Months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Continuing operations:			
Revenue	*3*	**1,344,045**	1,056,753
Cost of sales		**(1,127,367)**	(879,452)
Gross profit		**216,678**	177,301
Other revenue	*4*	**21,698**	5,789
Other net (loss)/income	*4*	**(4,030)**	68,966
Distribution costs		**(119,522)**	(122,180)
Administrative expenses		**(64,931)**	(63,717)
Profit from operations		**49,893**	66,159
Finance costs	*5(a)*	**(1,294)**	(54,326)
Profit before taxation	*5*	**48,599**	11,833
Income tax	*6*	**(14,545)**	(20,018)
Profit/(loss) for the period from continuing operations		**34,054**	(8,185)
Discontinued operations:			
Loss for the period from discontinued operations	*7*	**–**	(119,432)
Profit/(loss) for the period		**34,054**	(127,617)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)
For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

		Six Months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity shareholders of the Company			
– continuing operations		**30,812**	(12,077)
– discontinued operations		**–**	(183,578)
		30,812	(195,655)
Non-controlling interests			
– continuing operations		**3,242**	3,892
– discontinued operations		**–**	64,146
		3,242	68,038
Profit/(loss) for the period		**34,054**	(127,617)
Basic and diluted earnings/(losses) per share	*8*		
– continuing operations		**RMB0.007**	RMB(0.003)
– discontinued operations		**–**	RMB(0.039)
		RMB0.007	RMB(0.042)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

		Six Months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Profit/(loss) for the period		**34,054**	(127,617)
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities:			
net movement in the fair value reserve (recycling) *(i)*	*10*	**–**	44,525
Exchange differences on translation of overseas subsidiaries' financial statements		**24,126**	(61,134)
Release of exchange reserve upon disposal of subsidiaries		**–**	52,192
		24,126	35,583
Items that will not be reclassified subsequently to profit or loss:			
Equity investments at fair value through other comprehensive income - net movement in fair value reserve (non-recycling) *(ii)*	*10*	**(100,565)**	–
Exchange differences on translation of equity investments at fair value through other comprehensive income	*10*	**865**	–
Exchange differences on translation of the Company's financial statements		**11,655**	(34,030)
Total comprehensive income for the period		**(29,865)**	(126,064)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

	Six Months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Attributable to:		
Equity shareholders of the Company		
– continuing operations	**(33,107)**	(9,139)
– discontinued operations	**–**	(183,578)
	(33,107)	(192,717)
Non-controlling interests		
– continuing operations	**3,242**	2,507
– discontinued operations	**–**	64,146
	3,242	66,653
Total comprehensive income for the period	**(29,865)**	(126,064)

Notes:

(i) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 2(b).

(ii) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 – unaudited

(Expressed in Renminbi)

		At 30 June 2018		At 31 December 2017	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current assets					
Investment properties			**143,260**		145,100
Other property, plant and equipment	*9*		**384,205**		387,268
			527,465		532,368
Intangible assets			**2,098**		1,347
Goodwill			**232,307**		232,307
Other investments	*10*		**249,661**		398,724
Prepayment and deposits	*12*		**19,524**		25,416
Deferred tax assets			**2,153**		4,710
			1,033,208		1,194,872
Current assets					
Inventories	*11*	**1,302,802**		1,381,603	
Trade and other receivables	*12*	**631,797**		594,106	
Other investments	*10*	**49,363**		–	
Cash and cash equivalents	*13*	**1,382,537**		964,172	
Deposits with banks	*14*	**355,762**		668,720	
		3,722,261		3,608,601	
Current liabilities					
Trade and other payables	*15*	**235,450**		258,764	
Bank loans	*16*	**24,924**		24,838	
Current taxation		**11,336**		553	
		271,710		284,155	
Net current assets			**3,450,551**		3,324,446
Total assets less current liabilities			**4,483,759**		4,519,318

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018 – unaudited

(Expressed in Renminbi)

		At 30 June 2018		At 31 December 2017	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current liabilities					
Bank loans	*16*	**82,490**		84,282	
Deferred tax liabilities		**860**		1,338	
			83,350		85,620
NET ASSETS			**4,400,409**		4,433,698
CAPITAL AND RESERVES					
Share capital	*17*		**22,373**		22,429
Reserves			**4,314,331**		4,354,075
Total equity attributable to equity shareholders of the Company			**4,336,704**		4,376,504
Non-controlling interests			**63,705**		57,194
			4,400,409		4,433,698

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

	Note	Six Months ended 30 June **2018** ***RMB'000***	 2017 *RMB'000*
Operating activities			
Cash generated from operations		**79,809**	1,146,006
Income tax paid		**(3,515)**	(145,629)
Net cash generated from operating activities		**76,294**	1,000,377
Investing activities			
Payment for the purchase of other property, plant and equipment		**(13,221)**	(53,602)
Decrease in deposits with banks		**309,731**	–
Net proceeds from disposal of discontinued operations		**–**	2,358,352
Other cash flows arising from investing activities		**18,696**	77,705
Net cash generated from investing activities		**315,206**	2,382,455
Financing activities			
Redemption of senior notes		**–**	(702,699)
Other cash flows arising from financing activities		**(2,070)**	(1,146,311)
Net cash used in financing activities		**(2,070)**	(1,849,010)
Net increase in cash and cash equivalents		**389,430**	1,533,822
Cash and cash equivalents at 1 January	*13*	**964,172**	2,942,229
Effect of foreign exchange rates changes		**28,935**	(85,992)
Cash and cash equivalents at 30 June	*13*	**1,382,537**	4,390,059

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory annual consolidated financial statements for the year ended 31 December 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2018.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on:	
– Financial assets measured at amortised cost	**2,926**
Related tax	**–**
Net decrease in retained earnings at 1 January 2018	**2,926**
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	**(350,549)**
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	**350,549**

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	**HKFRS 9 carrying amount at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Financial assets carried at amortised cost				
Trade and other receivables	594,106	–	(2,926)	**591,180**
Financial assets measured at FVOCI (non-recyclable)				
Equity securities	–	398,724	–	**398,724**
Financial assets classified as available-for-sale under HKAS 39	398,724	(398,724)	–	**–**

(ii) ***Credit losses***

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Financial assets measured at fair value, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB2,926,000, which decreased retained earnings by RMB2,924,000 and non-controlling interests by RMB2,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	–
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	**1,582**
– Other receivables	**1,344**
Loss allowance at 1 January 2018 under HKFRS 9	**2,926**

(iii) ***Transition***

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts. The adoption of HKFRS15 does not have any material impact on the financial position and the financial results of the Group.

(d) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC)22 does not have any material impact on the financial position and the financial result of the Group.

3 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in Hong Kong and Taiwan/Malaysia). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, and given the importance of retail division to the Group, the Group's retail business is separated into the following two reportable segments on a geographical and products and services basis, as the divisional managers for each of these regions report directly to the senior executive team. All segments primarily derive their retail revenue through their own retail network. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six Months ended 30 June	
	2018	2017
		(Note)
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products of service lines		
– Revenue from retail segments	**1,072,162**	833,804
– Revenue from all other segments	**271,883**	222,949
	1,344,045	1,056,753
Revenue from other sources		
– Gross rentals from investment properties	**1,458**	1,958
	1,345,503	1,058,711
Disaggregated by geographical location of customers		
– Hong Kong (place of domicile)	**999,323**	758,654
– Mainland China	**273,341**	224,907
– Taiwan/Malaysia	**72,839**	75,150
	346,180	300,057
	1,345,503	1,058,711

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)).

The geographical analysis above includes property rental income from external customers in Mainland China for the six months ended 30 June 2018 of RMB1,458,000 (six months ended 30 June 2017: RMB1,958,000).

(b) Information about profit or loss and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the profit or loss and assets attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Segment assets represent inventories only, without eliminating the unrealised inter-segment profits.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Continuing operations								Discontinued operations		Total	
	Retail				All others		Sub-total					
	Hong Kong		Taiwan/Malaysia									
For the six months ended 30 June	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**999,323**	758,654	**72,839**	75,150	**271,883**	222,949	**1,344,045**	1,056,753	**–**	5,115,880	**1,344,045**	6,172,633
Inter-segment revenue	**15**	–	**–**	–	**44,086**	–	**44,101**	–	**–**	2,198,270	**44,101**	2,198,270
Reportable segment revenue	**999,338**	758,654	**72,839**	75,150	**315,969**	222,949	**1,388,146**	1,056,753	**–**	7,314,150	**1,388,146**	8,370,903
Reportable segment gross profit	**151,772**	124,551	**18,127**	21,305	**46,779**	31,445	**216,678**	177,301	**–**	1,594,426	**216,678**	1,771,727

	Continuing operations								Discontinued operations		Total	
	Retail				All others		Sub-total					
	Hong Kong		Taiwan/Malaysia									
	30 June 2018	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**985,561**	1,077,986	**195,064**	180,662	**122,177**	122,962	**1,302,802**	1,381,610	**–**	–	**1,302,802**	1,381,610

Results and assets of the segment below the quantitative thresholds ("All others") are mainly attributable to a watch accessories manufacturing business and shop design and decoration business.

(c) Reconciliations of reportable segment profit or loss

For the six months ended 30 June	Continuing operations 2018 *RMB'000*	Continuing operations 2017 *RMB'000*	Discontinued operations 2018 *RMB'000*	Discontinued operations 2017 *RMB'000*	Total 2018 *RMB'000*	Total 2017 *RMB'000*
Revenue						
Total revenues for reportable segments	**1,072,177**	833,804	**–**	7,257,797	**1,072,177**	8,091,601
Revenue for other segments	**315,969**	222,949	**–**	56,353	**315,969**	279,302
Elimination of inter-segment revenue	**(44,101)**	–	**–**	(2,198,270)	**(44,101)**	(2,198,270)
Consolidated revenue	**1,344,045**	1,056,753	**–**	5,115,880	**1,344,045**	6,172,633
Profit						
Total gross profit for reportable segments	**169,899**	145,856	**–**	1,555,285	**169,899**	1,701,141
Gross profit for other segments	**46,779**	31,445	**–**	39,141	**46,779**	70,586
	216,678	177,301	**–**	1,594,426	**216,678**	1,771,727
Other revenue	**21,698**	5,789	**–**	64,069	**21,698**	69,858
Other net (loss)/income	**(4,030)**	68,966	**–**	6,794	**(4,030)**	75,760
Distribution costs	**(119,522)**	(122,180)	**–**	(1,168,902)	**(119,522)**	(1,291,082)
Administrative expenses	**(64,931)**	(63,717)	**–**	(99,185)	**(64,931)**	(162,902)
Other operating expenses	**–**	–	**–**	(3,260)	**–**	(3,260)
Finance costs	**(1,294)**	(54,326)	**–**	(37,435)	**(1,294)**	(91,761)
Share of profits of joint ventures	**–**	–	**–**	835	**–**	835
Consolidated profit before taxation	**48,599**	11,833	**–**	357,342	**48,599**	369,175

4 OTHER REVENUE AND NET (LOSS)/INCOME

	Six Months ended 30 June 2018 *RMB'000*	Six Months ended 30 June 2017 *RMB'000*
Other revenue		
Continuing operations:		
Interest income	**17,407**	495
Government grants	**855**	562
Rental income	**1,458**	1,958
Others	**1,978**	2,774
	21,698	5,789

	Six Months ended 30 June 2018 *RMB'000*	Six Months ended 30 June 2017 *RMB'000*
Other net (loss)/income		
Continuing operations:		
Net foreign exchange (loss)/gain	**(4,796)**	2,983
Net loss on redemption of senior notes	**–**	(13,339)
Net gain on disposal of other property, plant and equipment	**766**	88
Net gain on disposal of a subsidiary	**–**	79,234
	(4,030)	68,966

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six Months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
(a) Finance costs		
Continuing operations:		
Interest expense on bank loans	**1,119**	17,240
Interest on senior notes	**–**	32,740
Bank charges	**175**	4,346
	1,294	54,326
(b) Other items		
Continuing operations:		
Amortisation	**287**	392
Depreciation	**14,101**	17,104
Impairment loss		
– trade and other receivables	**3,327**	–
Operating lease charges in respect of properties		
– minimum lease payments	**70,907**	74,251
– contingent rents	**835**	1,148

6 INCOME TAX

	Six Months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Continuing operations:		
Current tax		
Hong Kong profits tax	**8,583**	(740)
Mainland China income tax	**5,382**	82,764
Sub-total	**13,965**	82,024
Deferred taxation	**580**	(62,006)
	14,545	20,018

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) to the six months ended 30 June 2018.

Taxation for other overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries or jurisdictions.

7 DISCONTINUED OPERATIONS

On 30 December 2016, the Group entered into a sale and purchase agreement to disposal of its entire equity interest in Shanghai Xinyu Fine Watch Service Co., Ltd. and its subsidiaries ("Xinyu Group"), and 75.54% of Harvest Max Holdings Limited (collectively, the "Disposal Group"). The disposal was completed on 28 June 2017, on which date control of the Disposal Group passed to the acquirer.

The consolidated profit for the period from the discontinued operations is set out below.

	Six Months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit of the discontinued operations for the period	**–**	274,081
Loss on disposal of discontinued operations	**–**	(393,513)
	–	(119,432)

(a) Results of discontinued operations

	Six Months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**–**	5,115,880
Cost of sales	**–**	(3,521,454)
Other revenue	**–**	64,069
Other net income	**–**	6,794
Distribution costs	**–**	(1,168,902)
Administrative expenses	**–**	(99,185)
Other operating expenses	**–**	(3,260)
Finance costs	**–**	(37,435)
Share of profits of joint ventures	**–**	835
Income tax	**–**	(83,261)
Profit from discontinued operations for the period	**–**	274,081
Attributable to:		
Equity shareholders of the Company	**–**	209,935
Non-controlling interests	**–**	64,146

(b) Cash flows used in discontinued operations

	Six Months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Net cash generated from operating activities	**–**	942,034
Net cash generated from investing activities	**–**	602,360
Net cash used in financing activities	**–**	(2,028,705)
Net cash flow for the period	**–**	(484,311)

8 EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

The calculation of basic earnings/(losses) per share is based on the profit/(loss) attributable to equity shareholders of the Company of RMB30,812,000 (six months ended 30 June 2017: (RMB195,655,000)) and the weighted average of 4,681,349,057 ordinary shares (six months ended 30 June 2017: 4,774,182,427 ordinary shares) in issue during the interim period.

(b) Diluted earnings/(losses) per share

There were no dilutive potential ordinary shares during the period ended 30 June 2018 and 2017, and therefore, diluted earnings/(losses) per share are the same as basic earnings/(losses) per share.

9 OTHER PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group mainly incurred decoration and construction costs with a total amount of RMB13,221,000 (six months ended 30 June 2017: RMB41,501,000).

10 OTHER INVESTMENTS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Available-for-sale securities	**–**	398,724
Listed equity instruments (non-recycle)	**299,024**	–
	299,024	398,724

During the six months ended 30 June 2018, the fair value of the listed investment in equity securities decreased by RMB100,565,000 (six months ended 30 June 2017: increased by RMB44,525,000), amounting of which is determined based on the share prices of the equity instruments and recognised as a credit to other comprehensive income.

At 30 June 2018, the corresponding fair value of the other investments amounted to RMB49,363,000 has been recorded as current assets and expected to be disposed no more than twelve months after the reporting period.

11 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Raw materials	**16,112**	15,604
Work in progress	**56,303**	30,565
Finished goods	**1,230,387**	1,335,434
	1,302,802	1,381,603

12 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Current assets		
Within 3 months	**130,521**	156,651
Over 3 months but less than 12 months	**77,148**	20,369
Over 12 months	**15**	2,761
Trade debtors, net of allowance for doubtful debts	**207,684**	179,781
Prepayments and deposits	**122,069**	148,957
Other receivables	**302,044**	265,368
	631,797	594,106
Non-current asset		
Prepayments and deposits	**19,524**	25,416
	651,321	619,522

All of the trade and other receivables in current assets are expected to be recovered within one year.

Other receivables include advances to third parties of RMB211,175,000 (2017: RMB216,080,000) which are interest bearing at 9% to 12% per annum as at 30 June 2018 are recoverable within one year.

Trade receivables are due within 30 to 90 days from the date of billing.

13 CASH AND CASH EQUIVALENTS

As at 30 June 2018 and 31 December 2017, all of the Group's cash and cash equivalents in the consolidated statement of financial position represented cash at bank and cash in hand.

14 DEPOSITS WITH BANKS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Deposits with original maturities over three months	**355,762**	668,720

15 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within 1 month	**131,193**	133,578
Over 1 month but less than 3 months	**19,191**	8,095
Over 3 months but less than 12 months	**748**	20,075
Over 1 year	**34**	287
Trade payables	**151,166**	162,035
Other payables and accrued expenses	**72,800**	81,147
Advance receipts from customers	**11,484**	15,582
	235,450	258,764

16 BANK LOANS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Bank loans within one year or on demand		
– Secured	**–**	3,687
– Unsecured	**24,924**	21,151
	24,924	24,838
Bank loans after one year		
– Secured	**82,490**	84,282
	107,414	109,120

At 30 June 2018, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB114,549,000 (31 December 2017: RMB116,200,000).

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

There is no interim dividend has been declared after the interim period.

(b) Purchase of own shares

For the six months ended 30 June 2018, a total of 13,460,000 shares were repurchased on the Stock Exchange at an aggregate consideration of HKD4,982,000 (equivalent to RMB4,083,000) and related transaction costs of HKD10,000 (equivalent to RMB8,000).

The 13,460,000 repurchased shares were cancelled in May and June 2018 and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB56,000 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB4,035,000 was charged to share premium.

(c) Shares granted under share award scheme

Pursuant to a share award scheme approved by the Board in 2015, the Company may purchase its own shares and grant such shares to certain employees or consultants of the Group.

For the six months ended 30 June 2018, the Company granted 1,064,000 shares at nil consideration to the Group's employees under 2015 share award scheme, of which 564,000 shares were granted to the Company's directors.The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

18 CAPITAL COMMITMENTS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Authorised but not contracted for	**60,919**	228

19 MATERIAL RELATED PARTY TRANSACTIONS

Recurring transactions

	Six Months ended 30 June	
	2018 *RMB'000*	2017 *RMB'000*
Lease expenses to a joint venture	**–**	2,850
Payments made on behalf of joint ventures	**–**	506
Payments made by joint ventures	**–**	5,431
Shop design and decoration services provided to Xinyu Group	**8,745**	–

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2018, the global economy maintained sustained recovery, while the steady and rising trend in the Chinese economy in 2017 continued with progresses in social and economic development realised and the operating environment in Hong Kong and Macau further improved. Driven by various favourable economic factors, the retail market in Hong Kong showed overall prosperity. The Group made the best use of opportunities and sought growth by proactive expansion while maintaining stability, which has brought good operating results and effectively safeguarded the shareholders' interests.

I. Financial Review

Revenue

For the six months ended 30 June 2018 (the "period under review"), the Group recorded revenue of RMB1,344,045,000 (the six months ended 30 June 2017: RMB1,056,753,000), representing a year-on-year increase of 27.2%; retail sales amounted to RMB1,072,162,000 (the six months ended 30 June 2017: RMB833,804,000), representing a year-on-year increase of 28.6%; the revenue from watch accessories and other businesses amounted to RMB271,883,000 (the six months ended 30 June 2017: RMB222,949,000), representing a year-on-year increase of 21.9%. The Group achieved satisfying results.

Leveraging on high level refined and scientific management under the good operating environment, the sales of renowned watches of the Group, especially the sales and profits in Hong Kong, experienced a considerable increase. Leveraging on the strategic progress of watch accessories industrial chain, the Group's customer resources have been enriched continuously and its cooperation with brands has become even closer and deeper. Therefore, both manufacture and sales aspects of the relevant businesses have kept blooming.

Breakdown of Revenue:
(for the six months ended 30 June)

	2018		2017	
	RMB'000	***%***	*RMB'000*	*%*
Retail Business				
Hong Kong	**999,323**	**74.4**	758,654	71.8
Taiwan/Malaysia	**72,839**	**5.4**	75,150	7.1
Watch accessories manufacturing and customer services, etc.	**271,883**	**20.2**	222,949	21.1
Total	**1,344,045**	**100**	1,056,753	100

Gross profit and gross profit margin

For the six months ended 30 June 2018, the Group's gross profit amounted to approximately RMB216,678,000 (six months ended 30 June 2017: RMB177,301,000), representing a year-on-year increase of 22.2%. Gross profit margin was approximately 16.1% (six months ended 30 June 2017: 16.8%), representing a year-on-year decrease of 70bps. The overall decreases of the gross profit margin were mainly due to the Group's corresponding provisions for old stocks.

Profit for the period

During the period under review, the Group recorded a net profit amounting to RMB34,054,000 (six months ended 30 June 2017: loss of RMB127,617,000), representing a year-on-year increase of 126.7%. Profit attributable to equity shareholders amounted to RMB30,812,000 (six months ended 30 June 2017: loss of RMB195,655,000), representing a year-on-year increase of 115.7%. Increase in the profit was mainly due to the increase in revenue and decrease in financial costs.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 30 June 2018, the Group had total equity of RMB4,400,409,000 (at 31 December 2017: RMB4,433,698,000) and net current assets of RMB3,450,551,000 (at 31 December 2017: RMB3,324,446,000), with cash and cash equivalents and deposits with banks of RMB1,738,299,000 (at 31 December 2017: RMB1,632,892,000) and total bank loans of RMB107,414,000 (at 31 December 2017: RMB109,120,000). As at 30 June 2018, no bank loans of the Group bore interests at fixed rates (at 31 December 2017: RMB21,151,000 with an interest rate ranging from 1.66% to 2.24%) and the remaining bank loans bore interests at floating rates ranging from 1.75% to 2.24% (at 31 December 2017: ranging from 1.75% to 2.11%). As at 30 June 2018, 100% (at 31 December 2017: 100%) of the bank loans were denominated in NTD. The maturity profile of bank loans is set out in the notes to the accompanying financial statements. During the period under review, there was no sign of significant changes in the Group's demand for loans in a particular quarter.

As at 30 June 2018, the Group had bank loans of RMB107,414,000 and total debt of RMB107,414,000 (at 31 December 2017: RMB109,120,000). The net debt to equity ratio of the Group was zero (at 31 December 2017: zero) (Net debt is defined as total debt (which includes total interest-bearing borrowings) less cash and cash equivalents and deposits with banks), which established a solid foundation for the further business expansion of the Group.

The Group adopts prudent treasury policies in financial and cash management, manages bank credit availability and monitors risks of credit cost centrally in various ways. The Group maintains a good partnership with a number of banks which provide financing facilities, and reviews their funding liquidity and financing requirements regularly.

Foreign exchange risk

The Group's transactions are mainly denominated in HKD, RMB and NTD. During the period under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to significant risks associated with foreign exchange fluctuations. The Group has not entered into foreign exchange hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Pledge of assets

As at 30 June 2018, the Group had land and buildings equivalent to RMB114,549,000 (at 31 December 2017: RMB116,200,000) pledged as security for mortgage.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities (at 31 December 2017: nil).

Current assets

As at 30 June 2018, the current assets of the Group amounted to approximately RMB3,722,261,000 (at 31 December 2017: RMB3,608,601,000), comprising inventories of approximately RMB1,302,802,000 (at 31 December 2017: RMB1,381,603,000), trade and other receivables of approximately RMB631,797,000 (at 31 December 2017: RMB594,106,000), other investments of approximately RMB49,363,000 (at 31 December 2017: nil), cash and cash equivalents and deposits with banks of approximately RMB1,738,299,000 (at 31 December 2017: RMB1,632,892,000).

As at 30 June 2018, cash and cash equivalents of approximately 4% (at 31 December 2017: 5%), 93% (at 31 December 2017: 94%) and 3% (at 31 December 2017: 1%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 30 June 2018, the current liabilities of the Group amounted to approximately RMB271,710,000 (at 31 December 2017: RMB284,155,000), comprising bank loans of approximately RMB24,924,000 (at 31 December 2017: RMB24,838,000), trade and other payables of approximately RMB235,450,000 (at 31 December 2017: RMB258,764,000), and current tax payable of approximately RMB11,336,000 (at 31 December 2017: RMB553,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 30 June 2018, the issued share capital of the Company was 4,671,066,959 shares (at 31 December 2017: 4,684,526,959 shares) with reserves and accumulated profits of RMB4,314,331,000 (at 31 December 2017: RMB4,354,075,000) in total.

Significant investment, material acquisition and disposal

The Company has no material acquisitions or disposals of subsidiaries, associates and joint ventures during the period under review, except as disclosed in the notes to the financial statements.

Except as disclosed in the notes to the financial statements, the Company did not hold other significant investments during the period under review.

Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

II. Business Review

During the period under review, the Group's business was primarily focused on the sale of internationally renowned branded watches, comprehensive related customer services and maintenance in Hong Kong, Macau and Taiwan, watch accessories manufacturing and e-commerce.

Retail Network

The Group's retail network is mainly located in Hong Kong, Macau, Taiwan and Malaysia where retail stores mainly included "Elegant", "Hengdeli"/"Watchshoppe", and certain single-brand boutiques. "Elegant" stores are mainly located in Hong Kong, selling high-end internationally renowned branded watches, while "Hengdeli"/"Watchshoppe" stores are mainly located in Taiwan and Malaysia, selling mid-end and mid-to-high-end internationally renowned branded watches. The Group operated a total of 63 retail outlets in above-mentioned regions as at 30 June 2018, details of which are set out below:

	As at 30 June 2018		
	Hong Kong and Macau	**Taiwan/ Malaysia**	**Total**
Elegant	**5**	**1**	**6**
Hengdeli/Watchshoppe	**1**	**34**	**35**
Brand boutiques	**6**	**16**	**22**
Total	**12**	**51**	**63**

The Group has maintained sound business relationships with many world-renowned brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. As at 30 June 2018, the Group was engaged in the distribution of over 50 international brands from the above four major brand suppliers and other independent watchmakers, including Breguet, Blancpain, Bulgari, Cartier, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Parmigiani, Vacheron-Constantin, Tissot, Zenith and Hublot, etc. During the period under review, the Group continued to step up its efforts in adjusting the brands to optimize its brand portfolio, paving the way for long-term business development and stabilizing overall sales performance.

During the first half of 2018, the global economy maintained sustained recovery, while the steady and rising trend in the Chinese economy in 2017 continued with progresses in social and economic development realised and the operating environment in Hong Kong and Macau further improved. The Group made the best use of opportunities and sought growth by proactive expansion while maintaining stability, which has brought good operating results, thus overall retail sales increased by 28.6% as compared with the same period of last year.

Hong Kong and Macau

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Bulgari, Cartier, Chopard, Richard Mille, Franck Muller, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Omega, Panerai, Piaget, Parmigiani, Vacheron Constantin, Zenith, GlashÜtte Original, Ulysse Nardin, Jaquet Droz, Breitling and Corum, etc. To adapt to the changes in the mix and consumption patterns of visitors to Hong Kong in recent years, the Group also started to deploy multi-layer brand positioning in Hong Kong, introducing certain mid-to-high-end brands and marketing many well-known brands from independent international watchmakers such as Urwerk, HYT, Christophe Claret, Greubel Foresy and MB&F, in order to expand its market share and maintain its leading position in Hong Kong.

During the period under review, Hong Kong's retail market was driven to overall prosperity with the continuously improved political and economic atmosphere in Hong Kong, enthusiastic visitors to Hong Kong and positive consumer sentiment in the local market. Under the favourable economic environment, the Group's sales in Hong Kong greatly increased by 31.7% as compared with the same period of last year. Moreover, the profit also better improved in light of the continuingly enhanced operation and management level and the decreased expense ratio.

As at 30 June 2018, the Group operated a total of 11 retail outlets in Hong Kong, of which 5 were multi-brand "Elegant" shops and 6 were single-brand boutiques or image stores. The Group's retail outlets were mainly located in prime commercial districts such as Tsim Sha Tsui, Central and Causeway Bay. In view of the strong recovery in the retail market in Hong Kong and the optimistic consumer sentiment of visitors and citizens, the Group believes that the current good situation will continue in the second half of the year, and considers to expand its retail outlets in the commercial district in the second half of the year to further expand its market share in Hong Kong.

During the period under review, the Group opened a "Hengdeli" watch store at a well-known international hotel in Macau. As of the end of June, the store's sales momentum was good. According to the statistics released by the Macau Government, the gaming gross revenue of Macau recorded a double-digit year-on-year increase and the momentum continued to be improved in the first six months of 2018. The Group believes that Macau's sales will show even greater progress with the continuous improvement of operating environment in Macau.

Taiwan and Malaysia

The Group's retail business in Taiwan was in the process of network building and nurturing, mainly focusing on the sales of mid-end and mid-to-high-end watch brands. The Group operated a total of 46 retail outlets in Taiwan as at 30 June 2018, mainly located in prime districts including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one "Elegant" shop which sells top-end watches, all other retail outlets are brand boutiques and "Hengdeli" shops which sell mid-end and mid-to-high-end watch brands. Brands sold mainly include Omega, IWC, Certina, Hamilton, Longines, Rado, TAG Heuer, Tissot and Gucci, etc.

During the period under review, the retail sector in Taiwan remained stable and did not have much change compared to that of last year. The main sales target was still local customers. The "Elegant" store was newly opened last year, significantly improving the brands sold, driving sales growth and increasing the market share in the Taiwan region.

In view of the current situation, it is anticipated that there will still be no material changes in sales in Taiwan in the second half of the year. The Group will strive for development in a steady state, further improve the network building of retail outlets, promote the improvement of management level and lay a solid foundation for the sales peak.

During the period under review, the Group established a company in Malaysia mainly operating retail and maintenance business of internationally renowned watches. In the first half of the year, the company acquired the "Watchshoppe" business from the local world-renowned watch dealers, primarily including five retail outlets, three of which are located in Kuala Lumpur and two in Penang, all located in the central business district of the city. The Group believes that such acquisitions will not only bring new revenue to the Group, but also make Malaysia an important base for the Group to expand the market in places with large Chinese population such as Southeast Asia.

Customer Service and Maintenance

"Cutting-edged technology, efficient management and considerate services" are the solemn commitments made by the Group to consumers, providing consumers with best assurance and confidence. The continuing training provided by brand suppliers to the Group's technical personnel and the human resources policy of recruiting talents worldwide have ensured the Group to have its own elite technicians and maintain the word-class cutting edge of maintenance expertise.

The real-time repair and maintenance outlets for retail stores in all regions and the watch repair and maintenance centers located in Hong Kong ensure timely delivery of all-round after-sale services to customers. During the period under review, the newly renovated repair and maintenance centers in Hong Kong officially opened with its top international watch technicians and high-end maintenance equipments to provide international first-rate watch repair and maintenance services to customers so as to strive for perfection in customer services.

Industrial Group

The Group has a rather mature industrial chain for watch accessories manufacturing, mainly spanning from the manufacturing of watch accessories and packaging products to commercial space design, production and decoration. Each company is mainly located in Shanghai, Suzhou, Guangzhou and Dongguan. Our branches and subsidiaries have earned a solid reputation in their respective fields, forming tight relationships, mutual trust and interest sharing with brand suppliers. A wide customer base covering China, Switzerland, the United States and other nations in the Asia Pacific region etc. has been established.

During the period under review, the industrial group implemented the aggressive strategy through timely updates to product design, further perfection in customer services, optimization of product techniques as well as constant improvement in automation and informatization. The continuous deepening of informatization has effectively improved the ability of enterprises in cost management and benefit analysis, providing a solid foundation for enterprise data analysis and strategic decision-making. With the continuous investment and application of automation, the technological process of each company has been further improved, greatly improving the product quality and production efficiency, thus making its leading position in the market continue to be enhanced. The management concept of "one-stop commercial space" of service-sector companies has been accepted by more and more brand owners in the industry, which has increasingly enriched the Group's customer resources and the collaboration with brands has become more in-depth.

Sound operating environment, progressive strategy and scientific management have enabled various businesses of the industrial group to continuously maintain promising growth momentum in productivity and sale during the period under review. The turnover has increased by 20.6% compared with the same period of last year, achieving further improvement of development potential and competitiveness, as well as constant enhancement of overall strength.

Under the background of the strong industrial strategy of the Chinese government, the Group will seek opportunities to conduct industry integration of the upstream and downstream products, as well as strive for improving leadership in the industry through fully seizing the development opportunities, further strengthening the industrial management together with technical R&D and innovation, taking quality as the priority and driving growth by innovation in the second half of the year. Meanwhile, the Group will also fully implement green manufacture and green services, and make its due efforts for environmental protection while vigorously developing. The Group firmly believes that the industrial group will prosper along with the watch sales business of the Group in the course of rapid development.

III. Social Responsibility and Human Resources

As the cornerstone of its corporate management and social responsibility, the Group has always been advocating the corporate spirit of "mutual respect, shouldering responsibility, close collaboration and ongoing innovations" under the people-oriented core value.

As at 30 June 2018, the Group had a total of 1,881 employees in Hong Kong, Macau, Mainland China, Taiwan and Malaysia. The Group has always been committed to developing and adding value to human resources. The Group implements a standard recruitment system and allocates resources to various kinds of training for our managers, front-line service staff and maintenance technicians, which covers, among others, the art of management, sales skills, brand knowledge and service awareness, with an aim of enhancing knowledge, marketing skills and service capabilities of our staff. The Group also works with our brand suppliers to provide front-line service staff and maintenance technicians with regular training in brand knowledge and maintenance expertise.

The Group offers a competitive remuneration package and various incentives to all employees, and regularly reviews the structure of relevant mechanisms to cope with corporate development needs. The Group grants awarded shares to the general management staff and relevant persons of the Company in recognition of their contributions to the Group and as an incentive for their greater future commitment. The Group also offers other benefits to its employees, including MPF plans, insurance schemes, housing and meal allowances.

Environmental protection is one of the top priorities for the Group's sustainable development. During the period under review, subsidiaries of the Group's industrial group were in strict compliance with national regulations. Reports on pollutants were submitted regularly to environmental authorities as required. All pollutant emissions including sewage and gas passed annual inspection and met national standards.

The Group has maintained sound business relationships with many world-renowned watch brand suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. During the period under review, the Group was engaged in the distribution of over 50 internationally renowned brands from the above four major brand suppliers and other independent watchmakers. The branches and subsidiaries of the Group carried out strict quality control processes on products to align with national quality standards completely, fully safeguarding the interests of clients and consumers.

Apart from its efforts in achieving business results and creating brand value, the Group also actively participated in public welfare activities. The Group has made due contributions to education, healthcare, sports and other welfare undertakings through its donations to The Community Chest of Hong Kong, Po Leung Kuk of Hong Kong and Hong Kong Red Cross.

IV. Outlook

At present, the global politics and economy are not quite stable, while both the financial market and the real economy may be subject to certain risks. However, the Group believes that the favourable long-term fundamentals in the Chinese economy remain unchanged and the developing trend of the Chinese economy at a medium and high speed will continue. The construction of Guangdong-Hong Kong-Macau Greater Bay Area will also enable Hong Kong and Macau to maintain stability and progress of the operating environment. By continuously leveraging its core competitiveness, the Group will continue to respond to the market and identify new opportunities so as to achieve breakthroughs and expand businesses.

In the second half of the year, by continuously adhering to the principle of "maintaining stable and healthy growth and seeking sustainable development" and the strategy of "seeking progress in stability" and exploiting the synergy effect of internationally renowned watch distribution and watch accessories manufacturing and services, the Group will engage in more in-depth cooperation with brand suppliers and international peers through various ways, and seek for newer and broader development models for the Group in Hong Kong, Southeast Asia and other countries and regions, so as to create greater value for both our shareholders and community at large.

Dividend Distribution

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Equity-linked Agreements

Share Award Scheme

On 25 March 2015, a share award scheme was adopted by the Company to recognize the contributions of certain participants to the Company and to attract suitable personnel for the growth and further development of the Company.

Subject to any early termination as may be determined by the Board, the share award scheme shall be valid for a term of ten (10) years commencing on the adoption date. The Board may select any participants, other than any excluded participant, for participation in the share award scheme and determine the award amount for the purchase of the awarded shares to be awarded to the selected participants. The Board is entitled to impose any conditions (including a period of continued service within the Group), as it deems appropriate in its absolute discretion with respect to the entitlement of the selected participants to the awarded shares. No consideration for the awarded shares is needed to be paid by the selected participants to the Company. The Board shall not make any further award of awarded shares which will result in the nominal value of the shares awarded by the Board under the share award scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to a selected participant under the share award scheme in a 12-month period shall not exceed 0.5% of the issued share capital of the Company as at the adoption date or such number of shares as determined by the Board from time to time.

The share award scheme shall terminate on the earlier of the 10th anniversary date of the adoption date or such date of early termination (whichever is earlier) as determined by the Board.

During the period under review, the Company granted 1,064,000 awarded shares to four employees of the Group (2 of them being the executive directors of the Company) on 16 April 2018. The closing price of the awarded shares of the Company on the reference date was HKD0.370. The vesting date of the awarded shares was 20 April 2018. Details of the grant of awarded shares are as follows:

	Number of awarded shares (share)
Independent third parties	500,000
Connected persons	
– Mr. Huang Yonghua	264,000
– Mr. Lee Shu Chung, Stan	300,000
Total	1,064,000

Details of the share award scheme are set out in the announcements of the Company dated 25 March 2015 and 16 April 2018.

Share Option Scheme

At the annual general meeting held on 15 May 2015, the share option scheme of the Company (the "Share Option Scheme") was adopted conditionally to grant options to selected participants including but not limited to directors and employees of the Group as incentives or rewards for their contributions to the Group. Subject to any early termination as may be determined by the Board, the Share Option Scheme shall be valid and effective for a term of ten (10) years commencing on the adoption date.

Under the Share Option Scheme, subject to the discretion of the directors, there is no minimum period for which an option must be held before it can be exercised. Each option has a maximum valid period of 10 years after which the option shall lapse. The total number of shares issued and to be issued upon exercise of the options granted to each of the eligible participants in any 12-month period must not exceed 1% of the shares in issue. The exercise price shall not be less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer of that option; (ii) the average of the closing prices per shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of that option; and (iii) the nominal value of the shares.

Under the Share Option Scheme, the grantee shall accept the option within ten days from the date of the offer to grant the share option and pay HKD1.00 to the Company as consideration for the grant upon acceptance of the option.

As at 30 June 2018, the issued share capital of the Company was 4,671,066,959 shares, and there was no option outstanding (30 June 2017: 2,000,000 shares).

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased a total of 13,460,000 (the first half of 2017: 26,512,000) shares listed on the Stock Exchange by way of acquisition from the market. The total consideration paid was approximately HKD5,004,000, including related expenses. The details are as follows:

Date of repurchase of shares	Number of shares repurchased	Highest price per share paid (HKD)	Lowest price per share paid (HKD)	Approximate aggregate consideration (HKD) (excluding related expenses)
26 April 2018	500,000	0.365	0.365	182,500
27 April 2018	376,000	0.36	0.36	135,360
30 April 2018	1,000,000	0.37	0.365	369,940
7 May 2018	364,000	0.36	0.36	131,040
8 May 2018	7,000,000	0.37	0.36	2,559,820
25 May 2018	1,324,000	0.38	0.38	503,120
12 June 2018	812,000	0.38	0.38	308,560
15 June 2018	1,012,000	0.38	0.38	384,560
19 June 2018	1,072,000	0.38	0.375	407,180

All the above repurchased shares had been cancelled on 24 May 2018 and 27 June 2018, respectively.

The repurchases are in the interests of the Company and its shareholders as a whole with a view to enhancing the net assets value per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has always been committed to maintaining a high standard of corporate governance to ensure transparency, so that the interests of our shareholders and the cooperative development among our customers, employees and the Group can be safeguarded. The Company has adopted the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules.

The directors are of the opinion that the Company complied with the CG Code during the period under review, except for a deviation from the provision A.2.1. Given the existing corporate structure, the roles of the chairman and chief executive officer have not been separated, and both are performed by Mr. Zhang Yuping. Although the roles and duties of the chairman and chief executive officer have been performed by the same individual, all major decisions would only be made after consultation with and (where applicable) through the Board. There are three independent non-executive directors in the Board which is in compliance with the requirements of Rules 3.10(1), 3.10(2) and 3.10(A) of the Listing Rules. All of them possess adequate independence and therefore the Board considers that the Company has achieved a balance of power and provided sufficient assurance for scientific decision-making.

ACKNOWLEDGEMENT

The directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

GENERAL INFORMATION

As at the date of this announcement, the executive directors are Mr. Zhang Yuping (chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan, the non-executive director is Mr. Shi Zhongyang, and the independent non-executive directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 21 August 2018

As at the date this announcement, the executive directors of the Company are Mr. Zhang Yuping (chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan; the non-executive director is Mr. Shi Zhongyang; the independent non-executive directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.