CITYCHAMP
WATCH & JEWELLERY GROUP LIMITED
冠城鐘錶珠寶集團有限公司

INTERIM REPORT 2018 中期報告

THE EVOLUTION ERA
演進新時代

(incorporated in the Cayman Islands with limited liability) (於開曼群島註冊成立之有限公司) Stock Code 股份代號：256

Corporate Information

Board of Directors

EXECUTIVE DIRECTORS
HON Kwok Lung BBS *(Chairman)*
SHANG Jianguang *(Chief Executive Officer)*
SHI Tao
LAM Toi Man
BI Bo
SIT Lai Hei
HON Hau Wong
Teguh HALIM[1]

INDEPENDENT NON-EXECUTIVE DIRECTORS
FUNG Tze Wa
KWONG Chun Wai, Michael
ZHANG Bin
Rudolf Heinrich ESCHER

Audit Committee

FUNG Tze Wa *(Committee Chairman)*
KWONG Chun Wai, Michael
ZHANG Bin
Rudolf Heinrich ESCHER

Remuneration Committee

FUNG Tze Wa *(Committee Chairman)*
KWONG Chun Wai, Michael
ZHANG Bin
HON Kwok Lung
SHANG Jianguang
Rudolf Heinrich ESCHER

Nomination Committee

HON Kwok Lung *(Committee Chairman)*
SHANG Jianguang
FUNG Tze Wa
KWONG Chun Wai, Michael
ZHANG Bin
Rudolf Heinrich ESCHER

Risk Management Committee

SIT Lai Hei *(Committee Chairman)*
SHI Tao
LAM Toi Man
BI Bo

[1] appointed with effect from 23 January 2018

Qualified Accountant & Company Secretary

FONG Chi Wah

Auditor

BDO Limited

Principal Bankers

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
UBS AG
China CITIC Bank International Limited

Hong Kong Branch Share Registrar

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands

Principal Office

Units 1902–04, Level 19
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Websites

www.irasia.com/listco/hk/citychamp
www.citychampwj.com

Management Discussion and Analysis

Our Strategy

The Group takes a long-term perspective in formulating our corporate strategy. We engage capital and people where we identify opportunities to generate returns which exceed our cost of capital over the long term and invest in the existing and new businesses. It is our intention to remain a conglomerate with different businesses capable of generating sustainable long-term growth.

Financial Highlights

	Six months ended 30 June		
	2018	2017	Variation
	HK$'000	HK$'000	%
Total revenue	**1,477,807**	1,441,135	2.5%
Operating expenses	**778,817**	754,035	3.3%
Gross profit generated from non-banking and financial businesses	**743,279**	702,711	5.8%
Gross profit generated from banking and financial businesses	**240,275**	167,993	43.0%
EBITDA	**324,544**	177,810	82.5%
Profit before tax	**244,196**	94,715	157.8%
Net profit after tax	**193,577**	44,263	337.3%
Earnings per share attributable to owners of the Company for the period			
– Basic	**HK3.84 cents**	HK0.63 cent	509.5%
– Diluted	**HK3.84 cents**	HK0.63 cent	509.5%

	30 June	31 December	
	2018	2017	Variation
	HK$'000	HK$'000	%
Total assets	**21,950,829**	21,855,671	0.4%
Total liabilities	**16,841,134**	16,707,545	0.8%
Total equity	**5,109,695**	5,148,126	-0.7%

Operating Results

For the six months ended 30 June 2018, the Group recorded total revenue of approximately HK$1,477,807,000 (Six months ended 30 June 2017: HK$1,441,135,000), an increase of HK$36,672,000 or 2.5% over the corresponding period last year.

Operating expenses (including selling and distribution expenses and administrative expenses) for the period ended 30 June 2018 was approximately HK$778,817,000 (Six months ended 30 June 2017: HK$754,035,000), an increase of HK$24,782,000 or 3.3% over the corresponding period last year.

Gross profit generated from non-banking and financial businesses for the period ended 30 June 2018 was approximately HK$743,279,000 (Six months ended 30 June 2017: HK$702,711,000), an increase of HK$40,568,000 or 5.8% over the corresponding period last year.

Gross profit generated from banking and financial businesses for the period ended 30 June 2018 was approximately HK$240,275,000 (Six months ended 30 June 2017: HK$167,993,000), an increase of HK$72,282,000 or 43.0% over the corresponding period last year.

The EBITDA for the period ended 30 June 2018 was approximately HK$324,544,000 (Six months ended 30 June 2017: HK$177,810,000), an increase of HK$146,734,000 or 82.5% over the corresponding period last year.

Net profit after tax for the period ended 30 June 2018 was approximately HK$193,577,000 (Six months ended 30 June 2017: HK$44,263,000), an increase of HK$149,314,000 or 337.3% over the corresponding period last year.

Strategic Development

Bendura Bank AG ("Bendura Bank") has developed organically as shown by the growth of assets under management, improved profitability and increased headcount. It is in the process of establishing a representative office in Hong Kong and has already obtained the approval from the Hong Kong Monetary Authority. The acquisition of Bendura Bank has propelled the Group's growth in the businesses of banking and financial and contributed to delivering steady return to our shareholders.

Strategic Development (Continued)

On 20 July 2018, the Company subscribed for the partnership interest in a fund, Corum Sino-Swiss Fund, LP ("Corum Fund"), with an initial capital commitment of US$30 million as a limited partner. Chance Talent Management Limited ("Chance Talent"), a wholly owned subsidiary of China Construction Bank Corporation, also subscribed for the partnership interest in Corum Fund with capital commitment of US$70 million as a limited partner. The investment objective of Corum Fund is to invest in companies or assets in the luxury products industry or finance related companies.

Both limited partners will contribute capital when investment opportunities arise. At the expiry of the term of the fund, i.e. 5 years, the Company is committed to pay the shortfall if Corum Fund has insufficient cash for distributing to Chance Talent 100% of its aggregated capital contributions and a guaranteed return equal to 8% per annum of its capital contribution.

Corum Sino-Swiss Investment Partners Limited, owned 81% by Corum Capital Partners Limited and 19% by Chance Talent, acts as the general partner for Corum Fund. Corum Capital Partners Limited is 40% owned by the Company. Details were contained in the Company's announcement dated 20 July 2018.

Performance

Notwithstanding the challenging environment, we have collectively made good progress towards our strategic goals. Our Group comprises three key divisions – watches and timepieces businesses, banking and financial businesses, and various investment businesses. These divisions are described in more details in the following review.

I. Watches and timepieces businesses
   - I.A – local proprietary brands
   - I.B – foreign proprietary brands
   - I.C – non-proprietary brands

II. Banking and financial businesses
   - II.A – Bendura Bank
   - II.B – Shun Heng Finance Holding (Hong Kong) Limited

III. Various investment businesses
   - III.A – listed equity investment
   - III.B – property investment
   - III.C – other marketable securities

Performance (Continued)

I.A WATCHES AND TIMEPIECES BUSINESSES – LOCAL PROPRIETARY BRANDS

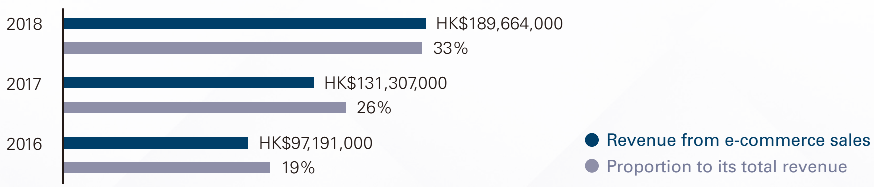
Zhuhai Rossini Watch Industry Limited

For the six months ended 30 June 2018, Zhuhai Rossini Watch Industry Limited ("Rossini"), a 91% subsidiary of the Group, recorded revenue of HK$573,093,000, an increase of HK$75,378,000, or 15.1%, from HK$497,715,000 for the same period last year. Net profit after tax attributable to owners of the Company for the period under review was HK$149,189,000, representing a slight decrease of HK$1,947,000 or 1.3%, from HK$151,136,000 for the same period last year.

In the first half of 2018, Rossini saw significant growth in sales from e-commerce, industrial tourism and group purchase, while sales from physical stores and overseas dropped slightly.

Rossini's revenue earned from e-commerce sales

For the six months ended 30 June



E-commerce sales for the six months ended 30 June 2018 increased to HK$189,664,000 from HK$131,307,000 for the same period last year, representing an increase of HK$58,357,000 or 44.4%. Rossini will continue to explore more suitable e-commerce platform to complement its existing platforms and the brand. It is expected that the e-commerce will be able to maintain a solid growth rate in the forthcoming years given the trend of e-commerce in Mainland China.

Rossini's industrial tourism hits record highs in terms of tourists' amount and revenue. More than 200,000 tourists visited the watch museum and generated revenue of approximately HK$48,985,000 in the first half of 2018. The watch museum is in the process of preparation for a new upgrading by adding more scientific elements such as modernized sound and light and multi-media methods into demonstration.

Performance (Continued)

I.A WATCHES AND TIMEPIECES BUSINESSES – LOCAL PROPRIETARY BRANDS (Continued)

EBOHR Group

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited ("EBOHR"), Shenzhen EBOHR Luxuries Online E-commerce Co., Ltd. and PAMA Precision Manufacturing Limited.

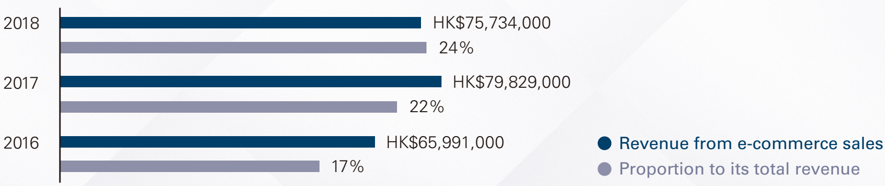
Revenue of EBOHR Group for the six months ended 30 June 2018 was HK$318,087,000, a decrease of HK$37,860,000, or 10.6%, from HK$355,947,000 for the same period last year. Net profit after tax for the six months ended 30 June 2018 was HK$35,575,000, representing a decrease of HK$24,530,000 or 40.8%, compared with HK$60,105,000 for the same period last year. E-commerce's impact on the traditional sales has been increasingly significant in the domestic market.

EBOHR's new headquarters has become operational since early 2018. Production and new product development have not been resumed to a normal level, resulting in shortage of product supply and hence affecting the revenue and profitability for the first half of 2018.

Due to that EBOHR's headquarters was relocated from downtown to a newly developed region, EBOHR was suffered from loss of some young talents specialized in e-commerce business. Such loss adversely affected EBOHR's e-commerce performance in the first half of 2018. For the first half of 2018, the revenue earned from e-commerce decreased to HK$75,734,000 from HK$79,829,000 for the same period last year, representing a decrease of HK$4,095,000 or 5.1%.

EBOHR Group's revenue earned from e-commerce sales

For the six months ended 30 June



Performance (Continued)

I.A WATCHES AND TIMEPIECES BUSINESSES – LOCAL PROPRIETARY BRANDS (Continued)

EBOHR Group (Continued)

Following the EBOHR Group's relocation into the new headquarters' facilities in January 2018, a lot of development plans have been put in place. A watch museum for launching industrial tourism business is ready to open to the public. The new central laboratory and industrial design center have been established.

Rossini and EBOHR Group for the period under review continued to be the major sources of revenue and accounted for more than 72% of the total revenue from non-banking and financial businesses of the Group (Six months ended 30 June 2017: 67%); they were also the major contributors of net profits for the Group.

The rapid growth of digital economy is changing consumer behavior, and Rossini and EBOHR are aggressively implementing strategies to enhance e-commerce. It is believed that the proportion of the e-commerce sales to both companies' revenue and profit will increase.

I.B WATCHES AND TIMEPIECES BUSINESSES – FOREIGN PROPRIETARY BRANDS

Foreign proprietary brands of the Group comprise of Eterna, Corum and brands, mainly Rotary, under The Dreyfuss Group Limited ("Dreyfuss Group").

Collectively, foreign proprietary brands contributed revenue and net loss after tax for the period ended 30 June 2018 of HK$205,686,000 (Six months ended 30 June 2017: HK$239,473,000) and HK$52,916,000 (Six months ended 30 June 2017: HK$108,452,000), respectively.

In the first half of 2018, markets in Switzerland, Russia and Eastern Europe showed the most significant growth for Corum. In addition, there was a continued growth in the Asian subsidiaries with an increase of more than 40% compared to the same period in 2017. Overall, Corum is moving in an upward trend.

In May 2018, a new Business Analysis Department of Corum was set up, with a goal to restructure the flow and organization of Corum to increase its profitability and efficiency. The primary mission is to analyze each department and provide solutions to identify issues through implementation of improvement or project reorganization. In addition, the department is also in charge of providing all necessary indicators to the managers to monitor the performance of their departments.

Performance (Continued)

I.B WATCHES AND TIMEPIECES BUSINESSES – FOREIGN PROPRIETARY BRANDS (Continued)

A project to integrate Eterna's customer service, back office and invoicing departments is in progress and expected to be launched in August 2018. With this in place, it will allow for a seamless workflow which results in significant cost savings. In addition, a workflow improvement between the sales department and marketing department is being put in place. With a closer collaboration and management of the budget, sales department will be fully supported by marketing activities being put in place so as to create the maximum return on investment.

Apart from supplying mechanical movements to intra-company brands, Eterna Movement will continue to concentrate on European and Asian markets and keep acquiring new customers by strengthening the marketing activities. In Asia, Eterna Movement has been cooperating with a well-known Asian watch brand over one year by providing know-how of mechanical movements.

In the first half of 2018, Dreyfuss Group's sales to the UK retailers represented 70% of its total sales. The UK retailers are feeling the effects of Brexit, with consumers remaining cautious about non-essential purchase. Dreyfuss Group continues to be suffering from the lagged economy and weak consumer spending.

Backed by our competitive strengths and deep understanding of the needs of our customers, we will redeploy our resources to realize gains in efficiency and synergy and will build on the good progress we have made to provide long-term value.

I.C WATCHES AND TIMEPIECES BUSINESSES – NON-PROPRIETARY BRANDS

Currently, the Group held four distribution companies. Collectively, distribution companies contributed revenue and net profit after tax for the period ended 30 June 2018 of HK$120,873,000 (Six months ended 30 June 2017: HK$110,658,000) and HK$4,677,000 (Six months ended 30 June 2017: net loss after tax of HK$693,000) respectively.

Performance (Continued)

II.A BENDURA BANK

Bendura Bank aims to accompany its clients from one generation to the next and to provide long-term wealth creation and protection. The range of private banking is comprehensive, focusing on, among others, following areas:

(1) Asset management and investment advice;

(2) Transaction banking; and

(3) Security issuance and investment funds.

Assets under management was CHF3.8 billion as of 30 June 2018 (30 June 2017: CHF3.1 billion) as a result of the quality service related to the asset management and investment advice.

Revenue for the period ended 30 June 2018 was HK$238,419,000, an increase of HK$76,680,000, or 47.4%, from HK$161,739,000 over the same period last year. Net profit after tax attributable to owners of the Company for the period ended 30 June 2018 was HK$86,489,000 compared with HK$37,198,000 for the same period last year, an increase of HK$49,291,000, or 132.5%.

The increase in net profit was attributable firstly to the most recent interest rate hikes in the US and the resulting extra interest income from interbank deposits held in US Dollars and secondly to an increase in lending to clients. Net income from interest and dividends increased strongly by approximately HK$49,812,000 or 140.9% compared to the same period last year. Net commission and fee income also increased by HK$15,283,000 or 15.0% compared to the same period last year in line with the growth of asset under management. Income from trading increased by HK$11,585,000 or 47.1% to HK$36,185,000 compared to the same period last year due to geopolitical events leading to higher extent of trading activities in the financial markets.

Owing to the cost management, the Bank achieved cost/income ratio of 49%. Liquidity remains at a high level. The substantial holdings of liquid assets achieved a Liquidity Coverage Ratio (LCR) of 152% at the end of 30 June 2018, being well above the regulatory threshold. The net profit generated in the first half of 2018 strengthens its capital base.

Performance (Continued)

II.A BENDURA BANK (Continued)

Bendura Bank allocates significant resources to compliance, risk management, control and reporting systems so that it remains a stable and secure institution. Banking is making rapid strides towards complete transparency. In order to fulfill the regulatory requirements, our clients have to disclose the full financial background to their payment transactions when first requested to do so by correspondent banks, including the identity of the beneficial owner, a profile of the acting persons and documentation on the transaction. Such information is necessary for the counterparty to comply with local regulatory requirements and help fight for tax evasion, money laundering and terrorist financing so as to ensure market transparency and maintain the stability of the financial system. In addition, the automatic exchange of information between Liechtenstein and third countries is a standard procedure. As of 30 June 2018, Liechtenstein has agreements with 98 countries. Despite of those increasingly strict regulations, Bendura Bank manages to grow assets under management gradually.

That our highly qualified employees are multilingual (German, English, Italian, Turkish, Russian, Polish, Czech, Slovak, Serbian, Croatian, Slovenian, Hungarian and Mandarin) with the necessary cultural understanding enables efficient market access internationally. That business segments are based on language regions enables efficient market access, which is considered to be the key success factor.

Bendura Bank continues to invest in the Mandarin speaking team so as to work on opportunities for Mandarin speaking clients. The Bank has already obtained the approval from Hong Kong Monetary Authority to open a local representative office in Hong Kong. The opening of the office is scheduled for autumn 2018 and represents one of the biggest achievements in our bank strategy.

It is the objective of Bendura Bank to focus primarily on the commissions and fees income by providing quality services. It continues to provide loans to selective clients on secured basis but maintains a broad extent of diversification.

Performance (Continued)

II.B SHUN HENG FINANCE HOLDING (HONG KONG) LIMITED

The Group currently conducts securities and asset management businesses under the umbrella of Shun Heng Finance Holding (Hong Kong) Limited (formerly known as Global Wealthy Link Limited) ("Shun Heng Finance Holding"), which is 60% owned by the Group. It comprises Shun Heng Securities Limited and Hong Kong Metasequoia Capital Management Limited.

For the six months ended 30 June 2018, Shun Heng Finance Holding contributed revenue and net loss after tax attributable to owners of the Company of HK$1,856,000 and HK$2,384,000 respectively.

Shun Heng Securities Limited ("Shun Heng Securities")

Shun Heng Securities, a corporate licensed to conduct Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (the "SFO"), is mainly engaged in securities brokerage and margin businesses.

In addition to the traditional brokerage business, Shun Heng Securities has continued to grow the underwriting business for overseas bonds issued by Chinese enterprises. In the first half of 2018, Shun Heng Securities completed its 4th underwriting project for a bond issue at a size of USD80 million.

To adapt itself to the expanding business and attract new individual and institutional investors, Shun Heng Securities has upgraded its online trading system which provides higher security and better user experience.

Hong Kong Metasequoia Capital Management Limited ("Metasequoia Capital")

Metasequoia Capital, a corporate licensed to conduct Type 4 (advisory on securities) and Type 9 (asset management) regulated activities under the SFO, is mainly engaged in asset management business.

Metasequoia Capital has launched its first fund, Global Opportunities Fund, with an initial fund size of HK$80 million and investing mainly in securities markets in Hong Kong and the US. As at 30 June 2018, the asset under management of Metasequoia Capital was approximately USD11.36 million. In addition, Metasequoia Capital has obtained the approval from the People's Bank of China the access to the China Inter-Bank Bond Market, for the purpose of launching more funds focusing on the bond market.

Performance (Continued)

III.A LISTED EQUITY INVESTMENT

(1) *Citychamp Dartong Company Limited*

As at 30 June 2018, financial assets at fair value through other comprehensive income of the Group was HK$594,981,000. HK$142,998,000 was related to the listed equity investment in the equity share of Citychamp Dartong Company Limited ("Citychamp Dartong"). Citychamp Dartong is a company listed on the Shanghai Stock Exchange (Stock code: 600067) and engaged in real estate, enameled wire, banking and new energy. As at 30 June 2018, the Group owned 30,389,058 shares of Citychamp Dartong at the market price of RMB3.97 per share (equivalent to HK$4.71 per share) with the fair value of HK$142,998,000. The shares held by the Group accounted for 2.04% of the total issued share capital of Citychamp Dartong as at 30 June 2018. Such fair value accounted for 0.7% of the Group's total assets.

The Group incurred a net loss on fair value change through other comprehensive income in investment in Citychamp Dartong of HK$94,961,000 for the six months ended 30 June 2018, as a result of decrease in the share price of Citychamp Dartong from RMB6.52 (equivalent to HK$7.82) as at 1 January 2018 to RMB3.97 (equivalent to HK$4.71) as at 30 June 2018. The Group recognised dividend receivable of HK$4,488,000 from Citychamp Dartong for the six months ended 30 June 2018.

This is the Group's long-term investment due to its dividend yield and long-term share price appreciation. Given its substantial land bank for development and profitability of certain business segments, we are optimistic about the future prospects of the Citychamp Dartong.

(2) *Min Xin Holdings Limited*

Investment in Min Xin Holdings Limited ("Min Xin") (Stock code: 222) was reclassified to financial assets at fair value through other comprehensive income from trading portfolio investments as the Company intends to hold the investment on a long term basis.

Min Xin is a company engaged in financial services, securities trading, real estate development, toll road and manufacturing. As at 30 June 2018, the investment in Min Xin was approximately HK$446,039,000, i.e. 88,150,000 shares at the market price of HK$5.06 per share as at 30 June 2018. Such fair value of the investment accounted for 2.0% of the Group's total assets. The shares held by the Company accounted for 14.76% of the total issued share capital of Min Xin as at 30 June 2018.

Performance (Continued)

III.A LISTED EQUITY INVESTMENT (Continued)

(2) Min Xin Holdings Limited (Continued)

The Company incurred a net loss on fair value change in Min Xin's investment of HK$60,824,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: net loss of HK$44,158,000), as a result of decrease in the share price of Min Xin from HK$5.75 as at 1 January 2018 to HK$5.06 as at 30 June 2018. For the six months ended 30 June 2018, the Company's dividend receivable from Min Xin was HK$6,993,000.

Min Xin – Market Value	HK$'000
As at 30 June 2018	446,039
As at 30 June 2017	141,982

Remark:

The Group purchased 63,838,000 shares of Min Xin during the period from 1 July 2017 to 30 June 2018.

III.B PROPERTY INVESTMENT

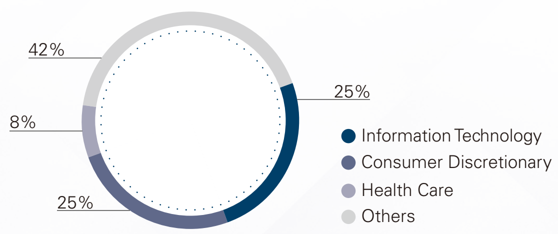
The factory complex in Dongguan, the property on Yan He South Road, Luohu District, Shenzhen, three shop units on Xianghua Road, Zhuhai, in Guangdong Province of Mainland China, and one apartment in Hong Kong owned by the Group have been leased out, with stable rental returns to the Group for the period under review. During the period, these investment properties generated rental income of HK$2,640,000 (Six months ended 30 June 2017: HK$9,951,000).

Performance (Continued)

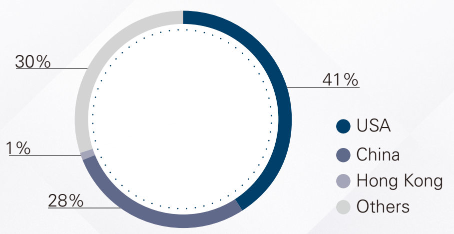
III.C OTHER MARKETABLE SECURITIES

The Group has acted as the founder investor and invested USD5,119,000 in "Metasequoia Investment Fund SPC – Global Opportunities Fund SP" (the "Fund") since 15 August 2017 in order to facilitate establishing the fund management business. As of 30 June 2018, the total net asset value of the Fund was USD11.36 million. The composition of investments in the Fund were approximately 25% in information technology sector, 25% in consumer discretionary sector, 8% in health care sector and the rest 42% in other sectors. Geographically, the Fund invested in companies of origin were approximately 41% in the US, 28% in Mainland China, 1% in Hong Kong and the remaining 30% in other countries. For the six months ended 30 June 2018, the unrealized loss on fair value of the investment was approximately USD17,000.

Sector Breakdown (%)



Geographical Breakdown (%)



Financial Position

(1) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, the Group had non-pledged cash and bank balances of approximately HK$7,413,715,000 (31 December 2017: HK$7,420,678,000). Based on the bank borrowings of HK$383,597,000 (31 December 2017: HK$583,269,000), the corporate bonds of approximately HK$738,766,000 (31 December 2017: HK$732,978,000) and shareholders' equity of HK$4,763,408,000 (31 December 2017: HK$4,804,881,000), the Group's gearing ratio (being borrowings plus corporate bonds divided by shareholders' equity) was 24% (31 December 2017: 27%).

As at 30 June 2018, the Group's borrowings amounting to HK$336,844,000 (31 December 2017: HK$564,498,000) were repayable within one year, representing 88% (31 December 2017: 97%).

The Group intends to apply a conservative approach to lending in view of the challenging global economic environment.

List of borrowings by currencies and by nature of interest rate and by duration

Currency	Nature of interest rate	Duration Within 1 year HK$'000	Duration More than 1 year HK$'000
CHF	Fixed/Floating	48,157	15,683
GBP	Floating	24,525	31,070
HKD	Floating	200,000	–
RMB	Fixed	11,853	–
USD	Floating	52,309	–
		336,844	46,753

(2) CHARGE ON ASSETS

As at 30 June 2018, banking facilities of the Company were secured by the Group's trade receivables of HK$15,192,000 and land and buildings in Switzerland with net book values of HK$91,324,000, totaling HK$106,516,000 (31 December 2017: HK$138,595,000).

(3) CAPITAL COMMITMENT

Capital commitments as at 30 June 2018 were approximately HK$411,316,000 in total (31 December 2017: HK$275,265,000), including the following:

1. Purchase of property, plant and equipment

2. Investment in an associate – Citychamp Allied International Limited

Except for the above, the Group had no other material capital commitments as at 30 June 2018.

Financial Review

(1) TOTAL ASSETS

Total assets increased to HK$21,950,829,000 as at 30 June 2018 from HK$21,855,671,000 as at 31 December 2017, mainly attributable to an increase in cash and deposits and due from banks and clients.

Cash and deposits

	30 June 2018 HK$'000	31 December 2017 HK$'000	Increase/(decrease) Amount HK$'000	%
Cash and bank balances	500,814	560,329	(59,515)	-10.6%
Cash held on behalf of clients	60,358	47,251	13,107	27.7%
Sight deposits with central banks	6,852,543	6,813,098	39,445	0.6%
	7,413,715	7,420,678	(6,963)	-0.1%

Due from banks and clients

	30 June 2018 HK$'000	31 December 2017 HK$'000	Increase/(decrease) Amount HK$'000	%
Due from clients – mortgage loans	513,849	359,956	153,893	42.8%
Due from clients – other	663,054	654,591	8,463	1.3%
Expected credit losses/valuation adjustments for default risk	(6,874)	(3,031)	(3,843)	126.8%
Total due from clients	1,170,029	1,011,516	158,513	15.7%
Due from banks on a daily basis	5,738,272	5,808,499	(70,227)	-1.2%
Due from banks other claims	160,992	113,571	47,421	41.8%
Expected credit losses/valuation adjustments for default risk	(3,197)	(192)	(3,005)	-1,565.1%
Total due from banks	5,896,067	5,921,878	(25,811)	-0.4%

Financial Review (Continued)

(2) INVESTMENTS

The investment as at 30 June 2018 included (a) trading portfolio investments of HK$202,305,000; (b) derivative financial assets of HK$21,980,000; (c) financial assets at amortised cost of HK$1,404,243,000; and (d) financial assets at fair value through other comprehensive income of HK$594,981,000 (the "Investments").

(a) Trading portfolio investments of HK$202,305,000

	30 June 2018 HK$'000	31 December 2017 HK$'000
Equity Instruments		
Listed equity instruments in Hong Kong at market value	**84,487**	556,634
Listed equity instruments outside Hong Kong at market value	**48,812**	42,579
Total equity instruments	**133,299**	599,213
Debt instruments		
Debt instruments of financial institutions listed outside Hong Kong	**14,155**	33,878
Unlisted debt instruments of financial institutions	**–**	2,733
Total debt instruments	**14,155**	36,611
Investment fund units		
Investment fund units listed outside Hong Kong	**2,002**	3,228
Unlisted investment fund units	**1,839**	1,979
Total investment fund units	**3,841**	5,207
Investments in other financial products	**41,016**	–
Convertible bond investment	**9,994**	–
Total trading portfolio investments	**202,305**	641,031

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(a) *Trading portfolio investments of HK$202,305,000 (Continued)*

It is the objective of the Group to maintain certain level of liquidity in the form of trading portfolio investments for unplanned capital expenditure. The liquidity is usually parked with the listed equities in order to generate short term return.

As at 30 June 2018, there were HK$84,487,000 invested in a variety of listed equities in Hong Kong and HK$48,812,000 invested in Mainland China and overseas markets.

The listed debt instruments of HK$14,155,000 included HK$11,853,000 invested in Mainland China by a subsidiary in Mainland China and HK$2,302,000 invested in the Europe markets by Bendura Bank.

Bendura Bank totally invested HK$6,143,000 in listed debt instruments (HK$2,302,000, shown above) as well as investment funds (HK$3,841,000). The portfolio of the listed debt instruments were composed of four listed debt instruments with different maturity, geography, segment and currency and hence, diversification was ensured. All listed debt instruments were considered upper-medium-grade and were subject to low credit risk. The basic prerequisite for constant growth in value is a broad diversification of the investments. That is the reason why Bendura Bank invests in selected funds as well. The investment policy of Bendura Bank also includes strict implementation of the investment process and is subject to constant review by the investment committee.

Investments in other financial products consist of the financial product investments of HK$35,127,000 invested by Rossini.

As at 31 December 2017, included in the trading portfolio investments of HK$641,031,000, there was an investment in Min Xin of HK$506,863,000, i.e., 88,150,000 shares at the market price of HK$5.75 per share as at 31 December 2017. Such fair value of the investment accounted for 2.3% of the Group's total assets as at 31 December 2017.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(a) *Trading portfolio investments of HK$202,305,000 (Continued)*

As at 1 January 2017, the Company owned 24,312,000 shares of Min Xin. During the year, the Company acquired 63,838,000 shares and received dividends of HK$1.2 million. The Company incurred a net loss on fair value change in Min Xin's investment of HK$19.6 million for the year ended 31 December 2017, as a result of decrease in the share price of Min Xin from HK$7.65 as at 1 January 2017 to HK$5.75 as at 31 December 2017.

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, certain listed equity investments were reclassified from trading portfolio investments to financial assets at fair value through other comprehensive income ("FVOCI"). The Group intends to hold Min Xin's investment for long term strategic purposes. As a result, such financial assets with a fair value of HK$506,863,000 were reclassified from trading portfolio investments to financial assets at FVOCI effective from 1 January 2018.

(b) *Derivative financial assets of HK$21,980,000*

	30 June 2018 HK$'000	31 December 2017 HK$'000
Derivative financial assets		
Convertible bond investment		
– Conversion option component	**–**	71
Forward and option contracts	**21,980**	4,609
	21,980	4,680

In the derivative financial assets of HK$21,980,000, there were forward and option contracts conducted by Bendura Bank.

Bendura Bank offers derivative products including currency forwards and swaps to its clients. These derivative positions were managed through entering back-to-back deals with external parties to ensure that remaining exposures are within acceptable risk levels. First-rate banks serve as counterparties, as is generally the case in trading business. It is not the objective of Bendura Bank to speculate the gain on the change in the price by conducting forward and option contracts without having invested in the underlying assets.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(b) *Derivative financial assets of HK$21,980,000 (Continued)*

As at 30 June 2018, positive replacement values of HK$21,980,000, whereof approximately HK$15,774,000 relate to FX swaps entered by Bendura Bank. Based upon risk/return considerations, client deposits denominated in foreign currencies were, in part, no longer invested on the interbank market but were swapped into Swiss francs using currency swaps and deposited with the Swiss National Bank (SNB). Income from the interest component of currency swaps exceeded the expense of SNB negative interest and the reduced level of interest from banks.

At as 31 December 2017, included in the derivative financial assets of HK$4.7 million, there were forward and option contracts of HK$4.6 million conducted by Bendura Bank.

(c) *Other financial assets at amortised cost of HK$1,404,243,000*

	30 June 2018 HK$'000
Listed debt instruments, at amortised cost	
Issued by:	
Governments and public sector	**366,999**
Financial institutions	**753,020**
Corporations	**284,224**
	1,404,243

Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK$1,404,243,000. The portfolio was composed of 60 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium-grade and are subject to low credit risk. The average remaining term of the held-to-maturity investment is 1.9 years, while the modified duration of the portfolio is only 0.32%. Largest single investments are short-term debt obligations backed by the US Treasury Department of the U.S. government (CHF45 million) followed by a bond issued by International Bank for Reconstruction and Development (CHF20 million). Both are triple-A issuers. Risk concentration is analysed and presented to the senior management on a monthly basis.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(c) Other financial assets at amortised cost of HK$1,404,243,000 (Continued)

Relatively major listed debt instruments as at 30 June 2018 are as follows:

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
Mondelēz International	Fixed	Corporations	30 March 2020	5,000
Deutsche Bank AG	Floating	Financial Institutions	16 May 2022	8,078
Bank of Nova Scotia	Floating	Financial Institutions	5 October 2022	8,812
ABN AMRO Bank N.V.	Floating	Financial Institutions	19 July 2022	7,922
European Investment Bank	Floating	Financial Institutions	24 March 2021	11,915
Intl Bk Recon & Develop	Floating	Financial Institutions	18 March 2020	19,806
Treasury Bill	Zero	Governments and public sector	11 October 2018	45,345
Total				106,878

During first half year 2018, Bendura Bank generated interest income of HK$5,319,000 from listed debt instruments. The fair value of listed debt instruments as at 30 June 2018 was HK$1,404,243,000.

Collectively, listed debt instruments, at amortised cost accounted for 6.4% of the Group's total assets.

As at 31 December 2017, Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK$1,138,704,000, the portfolio was composed of 65 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium-grade and are subject to low credit risk. Their maturity dates ranged from 6 months to 48 months with an average remaining term of 27 months. Risk concentration is analyzed and presented to the senior management on a monthly basis.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(c) *Other financial assets at amortised cost of HK$1,404,243,000 (Continued)*

Relatively major listed debt instruments as at 31 December 2017 are as follows:

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
Mondelēz International	Fixed	Corporations	30 March 2020	5,000
Daimler Intl Finance B.V.	Floating	Corporations	11 May 2022	4,686
Deutsche Bank AG	Floating	Financial Institutions	16 May 2022	8,164
Bank of Nova Scotia	Floating	Financial Institutions	5 October 2022	8,925
ABN AMRO Bank N.V.	Floating	Financial Institutions	19 July 2022	7,795
Ind & Comm Bk Chn/London	Floating	Financial Institutions	14 December 2022	4,872
Treasury Bill	Zero	Governments and public sector	11 October 2018	44,253
Total				83,695

During 2017, Bendura Bank generated interest income of HK$5,551,000 from held-to-maturity investments. Besides, there was no impairment made. The fair value of held-to-maturity investment as at 31 December 2017 of HK$1,138,704,000 accounted for 5.2% of the Group's total assets.

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, certain listed debt instruments were reclassified from held-to-maturity investment to other financial assets at amortised cost. As a result, other financial assets at amortised cost of HK$1,138,704,000 were reclassified from held-to-maturity investment to other financial assets at amortised cost since 1 January 2018.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(d) Financial assets at fair value through other comprehensive income of HK$594,981,000

	30 June 2018 HK$'000
Listed equity instruments in Hong Kong	**446,039**
Listed equity instruments outside Hong Kong	**142,998**
Unlisted equity investment	**5,944**
	594,981

Listed equity instruments of HK$142,998,000 related to investment in Citychamp Dartong and HK$446,039,000 related to investment in Min Xin.

(3) TOTAL LIABILITIES

Total liabilities increased to HK$16,841,134,000 as at 30 June 2018 from HK$16,707,545,000 as at 31 December 2017, mainly attributable to an increase in due to clients of Bendura Bank.

Due to clients

	30 June 2018 HK$'000	31 December 2017 HK$'000	Increase/(decrease) Amount HK$'000	%
Due to clients precious metals	**53,648**	45,865	7,783	17.0%
Other amounts due to clients, mainly bank deposits	**14,658,558**	14,224,224	434,334	3.1%
	14,712,206	14,270,089	442,117	3.1%

(4) GROSS PROFIT FROM NON-BANKING AND FINANCIAL BUSINESSES

Gross profit from non-banking and financial businesses was HK$743,279,000, an increase of 5.8% from HK$702,711,000 for the same period last year.

(5) EBITDA

EBITDA was HK$324,544,000, an increase of 82.5% from HK$177,810,000 for the same period last year.

Financial Review (Continued)

(6) SELLING AND DISTRIBUTION EXPENSES

Total selling and distribution expenses was HK$417,715,000, an increase of 14.4% from HK$365,045,000 for the same period last year. Rossini and EBOHR contributed selling and distribution expenses of HK$185,875,000 and HK$139,101,000 respectively.

(7) ADMINISTRATIVE EXPENSES

Total administrative expenses was HK$361,102,000, a decrease of 7.2% from HK$388,990,000 for the same period last year. Rossini and EBOHR contributed administrative expenses of HK$39,022,000 and HK$39,556,000 respectively.

(8) SHARE OF PROFIT OF ASSOCIATES

The share of profit of Fair Future Industrial Limited ("Fair Future"), a 25% owned associate of the Group, was HK$5,278,000, representing a decrease of 37.2% from HK$8,400,000 for the same period last year. Fair Future is one of the leading OEM quartz watch manufacturers in Mainland China.

(9) FINANCE COSTS FROM NON-BANKING BUSINESS

Finance costs from non-banking business was HK$27,313,000, representing a decrease of HK$6,678,000 or 19.6% for the same period last year. It was composed of the interest charged on corporate bonds and the interest charged on bank borrowings and bank overdrafts.

(10) NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Net profit attributable to owners of the Company was HK$167,100,000, an increase of 505.1% from HK$27,615,000 for the same period last year.

(11) INVENTORIES

Inventories was HK$1,967,590,000, a decrease of 2.9% from HK$2,027,191,000 as at 31 December 2017. Rossini and EBOHR contributed inventories of HK$391,930,000 and HK$489,252,000 respectively.

(12) EVENTS AFTER REPORTING PERIOD

On 20 July 2018, the Company has entered into the subscription agreement for the subscription of the interest in a fund with an initial capital commitment of US$30,000,000 (equivalent to approximately HK$235,500,000). Details of the transactions are set out in the Company's announcement dated 20 July 2018.

Governance and the Board

The Board remains focused on improving its effectiveness and the efficiency of the governance processes. We believe that an appropriate mix of skills, experience and perspectives within the Board helps strengthen its effectiveness.

Outlook

Mainland China has always been able to rely on strong external demand for its exports and a dynamic pace of internal growth as rapid domestic investment and changing consumer needs have facilitated a stable economic growth in the past twenty years. The current spectre of the US-China trade dispute spiralling out of control may potentially knock growth expectations of Mainland China at least in the short run. It is not just the impact on the export sector through lost output, investment and jobs but the likely knock-on effects on consumer confidence and retail spending as the general economic activity cools down. Domestic demand would suffer as multiplier effects sweep through the entire economy. If the crisis escalates, the impact on the economic growth of Mainland China would become apparent.

The local proprietary watch brand business in Mainland China is expected to be challenging in the second half of 2018. Fortunately, any decrease in sales revenue through the physical distribution is significantly compensated by the increase in sales revenue through e-commerce. In the medium term, it is likely that the US-China trade dispute would be dealt with and the market conditions are expected to improve when the consumer confidence is recovered and the demand for watches therefore grows modestly all over Mainland China.

The foreign proprietary watch brand business also remains challenging. However, there are certain products and markets where the results are picking up and have favorable impact on revenue and profitability.

The Group is currently exploring a few potential acquisitions related to the segment of banking and financial businesses as we believe that such segment will be our new main driver of revenue and profitability in the years to come.

Outlook (Continued)

Our robust financial strength and extensive local and overseas operation experience pose exceptional advantages for us when approaching potential investments and acquisitions. This unique edge could possibly provide us with even greater opportunities amidst the challenging economic environment.

While we are and intend to remain a conglomerate with diverse businesses capable of generating sustainable long-term growth, we would continue to divest from businesses which have reached their full potential and deploy the capital released to existing and new businesses.

Employees and Remuneration Policy

Our sustained success would not be possible without the high levels of expertise, professionalism and commitment shown by our employees.

As at 30 June 2018, the Group had approximately 60 full-time staff in Hong Kong, 4,500 in Mainland China and nearly 350 in Europe. The remuneration packages offered to the employees were determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonuses are offered with reference to the Group's operating results and employees' individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes. Employees of Group's Subsidiaries in Mainland China also participate in social insurance scheme administrated and operated by local authorities and contributions are made according to the local laws and regulations.

Dividend

The Board has resolved not to distribute an interim dividend for the six months ended 30 June 2018 (Six months ended 30 June 2017: Nil).

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2018, the interests or short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(1) LONG POSITIONS IN SHARES OF THE COMPANY

As at 30 June 2018, certain directors of the Company held long positions in the shares of the Company as follows:

	Number of shares held				
Name of director	Beneficial owner	Corporate interests	Family interests	Total interests	Percentage of shareholding
Hon Kwok Lung	3,500,000	3,017,389,515[1]	1,374,000[2]	3,022,263,515	69.45%
Shang Jianguang	5,300,000	–	–	5,300,000	0.12%
Shi Tao	5,000,000	–	–	5,000,000	0.11%
Lam Toi Man	2,400,000	–	–	2,400,000	0.06%
Sit Lai Hei	–	200,000,000[3]	–	200,000,000	4.60%
Hon Hau Wong	1,750,000	–	200,000,000[4]	201,750,000	4.64%
Teguh Halim	3,000,000	–	3,000,000[5]	6,000,000	0.14%
Fung Tze Wa	1,600,000	–	–	1,600,000	0.04%

Notes:

1. The 3,017,389,515 shares comprise of 1,640,128,000 shares held by Full Day Limited ("Full Day"), which is wholly-owned by Mr. Hon Kwok Lung and 1,377,261,515 shares held by Sincere View International Limited ("Sincere View"), which is owned as to 80% by Mr. Hon Kwok Lung and 20% by his spouse.

2. 1,374,000 shares were held by Mr. Hon Kwok Lung's wife, Ms. Lam Suk Ying.

3. The 200,000,000 shares were held by Qiangda Limited, a wholly-owned subsidiary of Fengrong Investment (Hong Kong) Company Limited ("Fengrong Hong Kong"). Fengrong Hong Kong is wholly-owned by Fujian Fengrong Investment Company Limited ("Fujian Fengrong"), which is owned as to approximately 68.5% by Ms. Sit Lai Hei.

4. Mr. Hon Hau Wong is deemed to have an interest in 200,000,000 shares which were held by Qiangda Limited, a wholly-owned subsidiary of Fengrong Hong Kong. Fengrong Hong Kong is wholly-owned by Fujian Fengrong which is owned as to approximately 31.5% by Ms. Lu Xiaojun, the spouse of Mr. Hon Hau Wong.

5. 3,000,000 shares were held by Mr. Teguh Halim's wife.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (Continued)

(2) SHARE OPTIONS OF THE COMPANY

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Details of exercise of such options are disclosed under the paragraph "Share Option Scheme" below. These share options were granted pursuant to the terms of the share option scheme adopted by the Company on 30 May 2008.

(3) LONG POSITION IN SHARES OF THE ASSOCIATED CORPORATIONS OF THE COMPANY

Name of Director	Name of associated corporation	Nature of interest	Percentage of shareholding
Sit Lai Hei	Zhuhai Rossini Watch Industry Limited[1]	Corporate[2]	9%
Hon Hau Wong	Zhuhai Rossini Watch Industry Limited[1]	Family Interest[2]	9%

Notes:

1. Zhuhai Rossini Watch Industry Limited ("Rossini") is owned as to 91% indirectly by the Company and 9% by Fujian Fengrong. Rossini is an associated corporation of the Company within the meaning of Part XV of the SFO.

2. The interest in Rossini was held by Fujian Fengrong, which is owned as to approximately 68.5% by Ms. Sit Lai Hei, an Executive Director, and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit Lai Hei and Ms. Lu Xiaojun are daughters-in-law of Mr. Hon Kwok Lung, an Executive Director of the Company. Mr. Hon Hau Wong, being an Executive Director of the Company and the husband of Ms. Lu Xiaojun, is also deemed to be interested in the 31.5% interest in Fujian Fengrong.

Save as disclosed above, as at 30 June 2018, no other person had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The following table discloses movements in the Company's share options for the six months ended 30 June 2018:

Category of participants	Number of share options At 1 January 2018	Movement during the period	At 30 June 2018
Directors	–	–	–
Other eligible employees			
In aggregate	1,575,000	(1,575,000)	–
Other eligible persons			
In aggregate	5,480,000	–	5,480,000
Total	7,055,000	(1,575,000)	5,480,000

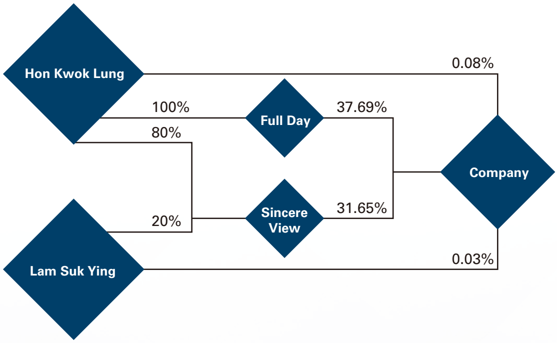
Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2018, the following persons hold interests of 5% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Nature of interest	No. of Shares	Percentage of existing issued capital
Sincere View International Limited	Beneficial owner	1,377,261,515	31.65%
Full Day Limited	Beneficial owner	1,640,128,000	37.69%
Hon Kwok Lung (Note)	Corporate interest, beneficial owner and family interest	3,022,263,515	69.45%
Lam Suk Ying (Note)	Beneficial owner and family interest	3,022,263,515	69.45%

Substantial Shareholders' Interests in Shares and Underlying Shares (Continued)

Note: Mr. Hon Kwok Lung and Ms. Lam Suk Ying, his spouse, are deemed to have an interest in the same parcel of 3,022,263,515 shares, which comprise 1,377,261,515 shares held by Sincere View, 1,640,128,000 shares held by Full Day, 3,500,000 shares held by Mr. Hon Kwok Lung and 1,374,000 shares are held by Ms. Lam Suk Ying. The shareholding structure was summarised in the following chart:



Save as disclosed above, as at 30 June 2018, no other person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Corporate Governance Code

During the six months period ended 30 June 2018, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except with the details disclosed below:

(1) CG CODE E.1.2

CG Code E.1.2 stipulates that the chairman of the board of directors should attend the annual general meeting. The Chairman of the board of director of the Company was unable to attend the annual general meeting of the Company held on 28 May 2018 (the "AGM 2018") due to other business engagement.

(2) CG CODE A.6.7

CG Code A.6.7 stipulates that independent non-executive directors should attend general meetings. Three independent non-executive directors did not attend the AGM 2018 due to other business engagements.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

Board Committees

AUDIT COMMITTEE

The audit committee of the Company currently comprises following members:

Independent Non-executive Directors
Fung Tze Wa *(Committee Chairman)*
Kwong Chun Wai, Michael
Zhang Bin
Rudolf Heinrich Escher

The audit committee reviewed the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim financial information for the six months ended 30 June 2018. The audit committee also reviewed and commented internal audit reports of subsidiaries and adequacy of resources, qualifications, experience and training of staff engaged in the accounting and financial report function.

REMUNERATION COMMITTEE

The remuneration committee of the Company currently comprises following members:

Independent Non-executive Directors
Fung Tze Wa *(Committee Chairman)*
Kwong Chun Wai, Michael
Zhang Bin
Rudolf Heinrich Escher

Executive Directors
Hon Kwok Lung
Shang Jianguang

Board Committees (Continued)

REMUNERATION COMMITTEE (Continued)

The remuneration committee makes recommendations to the board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration committee also makes recommendations to the board on the remuneration packages of individual executive directors and senior management. The remuneration committee ensures that no director or any of his/her associates is involved in deciding his/her own remuneration.

NOMINATION COMMITTEE

The nomination committee of the Company currently comprises following members:

Executive Directors
Hon Kwok Lung *(Committee Chairman)*
Shang Jianguang

Independent Non-executive Directors
Fung Tze Wa
Kwong Chun Wai, Michael
Zhang Bin
Rudolf Heinrich Escher

The principal duties of the nomination committee are to review the structure, size and composition of the board, identify and nominate individuals suitably qualified to become board members and make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors. The nomination committee is also responsible for assessing the independence of independent non-executive directors.

RISK MANAGEMENT COMMITTEE

The risk management committee currently comprises following members:

Executive Directors
Sit Lai Hei *(Committee Chairman)*
Shi Tao
Lam Toi Man
Bi Bo

Board Committees (Continued)

RISK MANAGEMENT COMMITTEE (Continued)

The principal duties of the risk management committee are to evaluate and determine the risk appetite that the Group is willing to take in achieving its strategic objectives, to oversee the Group's risk management system on an ongoing basis and conduct a review on the effectiveness of the system at least once annually, and to identify significant risks to which the Group is exposed and develop plans and measures to management or mitigate such significant risks.

Buy-back, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2018, the Company did not buy back any Company's listed shares (whether on the Stock Exchange or otherwise).

Appreciation

Our financial performance and strategic moves reflected the joint efforts of the board and management in successfully pursuing our mission to be one of the leaders in the watch industry of Mainland China. Our sales and profit growth could not have achieved without the leadership of the board and our management team. I would like to express my deep gratitude to our employees, customers, suppliers, bankers, professional consultants, business partners, and shareholders for their support.

Hon Kwok Lung
Chairman

Hong Kong, 30 August 2018

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **HK$'000** **(Unaudited)**	 2017 HK$'000 (Unaudited)
Interest income from banking business		**105,333**	56,948
Interest expenses from banking business		**(20,167)**	(21,594)
Net interest income from banking business	6a	**85,166**	35,354
Service fees and commission income from banking business		**161,110**	145,034
Service fees and commission expenses from banking business		**(44,042)**	(43,249)
Net service fees and commission income from banking business	6b	**117,068**	101,785
Trading income from banking business	6c	**36,185**	24,600
Service fees and commission income from financial business	6d	**1,752**	6,207
Interest income from financial business	6d	**104**	47
Sales of goods from non-banking and financial businesses	6e	**1,234,892**	1,263,191
Rental income from non-banking and financial businesses	6e	**2,640**	9,951
Total revenue		**1,477,807**	1,441,135
Cost of sales from non-banking and financial businesses		**(494,253)**	(570,431)
Other ordinary income and other net gains or losses	7	**62,927**	3,637
Selling and distribution expenses		**(417,715)**	(365,045)
Administrative expenses		**(361,102)**	(388,990)
Share of loss of joint ventures		**(1,433)**	–
Share of profit of associates		**5,278**	8,400
Finance costs from non-banking business	8	**(27,313)**	(33,991)
Profit before income tax	9	**244,196**	94,715
Income tax expense	10	**(50,619)**	(50,452)
Profit for the period		**193,577**	44,263

Condensed Consolidated Statement of Comprehensive Income (Continued)

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **HK$'000** **(Unaudited)**	 2017 HK$'000 (Unaudited)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss			
– Change in fair value of financial assets at fair value through other comprehensive income	15	**(156,087)**	–
Items that may be subsequently reclassified to profit or loss			
– Exchange differences on translation to presentation currency		**(54,593)**	57,887
– Changes in fair value of available-for-sale financial assets		**–**	(2,516)
Other comprehensive income for the period		**(210,680)**	55,371
Total comprehensive income for the period		**(17,103)**	99,634
Profit for the period attributable to:			
Owners of the Company		**167,100**	27,615
Non-controlling interests		**26,477**	16,648
		193,577	44,263
Total comprehensive income for the period attributable to:			
Owners of the Company		**(33,504)**	68,666
Non-controlling interests		**16,401**	30,968
		(17,103)	99,634
Earnings per share attributable to owners of the Company for the period	12		
– Basic		**HK3.84 cents**	HK0.63 cent
– Diluted		**HK3.84 cents**	HK0.63 cent

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
Assets			
Cash and deposits		**7,413,715**	7,420,678
Due from clients	13	**1,170,029**	1,011,516
Due from banks	13	**5,896,067**	5,921,878
Trading portfolio investments	14	**202,305**	641,031
Financial assets at fair value through other comprehensive income	15	**594,981**	–
Derivative financial assets	16	**21,980**	4,680
Trade receivables	17	**557,904**	506,287
Other financial assets at amortised cost	18	**1,404,243**	–
Available-for-sale financial assets		**–**	488,368
Held-to-maturity investments		**–**	1,138,704
Inventories	19	**1,967,590**	2,027,191
Income tax recoverable		**16,039**	10,133
Interests in joint ventures		**3,684**	5,117
Interests in associates		**104,926**	99,648
Property, plant and equipment	20	**985,250**	1,027,303
Investment properties	21	**125,802**	125,384
Prepaid land lease payments		**50,113**	51,083
Intangible assets		**11,377**	13,136
Goodwill	22	**894,831**	906,036
Deferred tax assets		**9,318**	6,900
Other assets		**520,675**	450,598
Total assets		**21,950,829**	21,855,671

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2018

	Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
Liabilities			
Due to banks		**3,010**	3,042
Due to clients		**14,712,206**	14,270,089
Derivative financial liabilities	16	**6,727**	35,656
Trade payables	23	**339,412**	305,798
Contract liabilities		**2,187**	–
Corporate bonds	24	**738,766**	732,978
Income tax payables		**66,563**	101,985
Borrowings	25	**383,597**	583,269
Provisions		**468**	721
Subordinated debt		**–**	95,674
Deferred tax liabilities		**7,908**	8,188
Other liabilities		**580,290**	570,145
Total liabilities		**16,841,134**	16,707,545
EQUITY			
Equity attributable to owners of the Company			
Share capital		**435,189**	435,032
Reserves		**4,328,219**	4,369,849
		4,763,408	4,804,881
Non-controlling interests		**346,287**	343,245
Total equity		**5,109,695**	5,148,126
Total liabilities and equity		**21,950,829**	21,855,671

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Equity attributable to owners of the Company				
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Share option reserve* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Goodwill arising on consolidation* HK$'000 (Unaudited)
At 1 January 2017	434,682	773,749	1,601	22,692	(15,300)
Transactions with owners					
Proceeds from shares issued under share option scheme	350	787	–	–	–
Exercise of share option	–	531	(531)	–	–
Partial disposal of subsidiaries without loss of control	–	–	–	552,263	–
Capital contribution from non-controlling interests	–	–	–	–	–
Arising from acquisition of non-controlling interests	–	–	–	–	–
Special dividend (note 11.2)	–	–	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–
Total transactions with owners	350	1,318	(531)	552,263	–
Comprehensive income					
Profit for the period	–	–	–	–	–
Other comprehensive income					
Exchange differences on translation to presentation currency	–	–	–	–	–
Changes in fair value of available-for-sale financial assets	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
At 30 June 2017	435,032	775,067	1,070	574,955	(15,300)

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

Equity attributable to owners of the Company						
Statutory reserve* HK$'000 (Unaudited)	Exchange fluctuation reserve* HK$'000 (Unaudited)	Investment revaluation reserve* HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
60,148	(247,187)	122,573	2,479,923	3,632,881	219,809	3,852,690
–	–	–	–	1,137	–	1,137
–	–	–	–	–	–	–
–	–	–	–	552,263	176,558	728,821
–	–	–	–	–	20,000	20,000
–	–	–	–	–	(16,093)	(16,093)
–	–	–	(217,516)	(217,516)	–	(217,516)
–	–	–	–	–	(17,570)	(17,570)
–	–	–	(217,516)	335,884	162,895	498,779
–	–	–	27,615	27,615	16,648	44,263
–	43,611	–	–	43,611	14,276	57,887
–	–	(2,560)	–	(2,560)	44	(2,516)
–	43,611	(2,560)	27,615	68,666	30,968	99,634
60,148	(203,576)	120,013	2,290,022	4,037,431	413,672	4,451,103

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

	Equity attributable to owners of the Company				
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Share option reserve* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Goodwill arising on consolidation* HK$'000 (Unaudited)
At 1 January 2018, as original presented	435,032	771,202	1,070	15,220	(15,300)
Impact on initial application of HKFRS 9 (note 3(a))	–	–	–	–	–
At 1 January 2018, as restated	435,032	771,202	1,070	15,220	(15,300)
Transactions with owners					
Proceeds from shares issues under share option scheme	157	354	–	–	–
Exercise of share option	–	239	(239)	–	–
Net investment from non-controlling interests	–	–	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–
Total transactions with owners	157	593	(239)	–	–
Comprehensive income					
Profit for the period	–	–	–	–	–
Other comprehensive income					
Exchange differences on translation to presentation currency	–	–	–	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
At 30 June 2018	435,189	771,795	831	15,220	(15,300)

* These reserve accounts comprise the consolidated reserves of HK$4,328,219,000 (31 December 2017: HK$4,369,849,000) in the condensed consolidated statement of financial position.

The entire balance of fair value through other comprehensive income reserve belongs to non-recycling portion.

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

Equity attributable to owners of the Company							
Statutory reserve* HK$'000 (Unaudited)	Exchange fluctuation reserve* HK$'000 (Unaudited)	Investment revaluation reserve* HK$'000 (Unaudited)	Fair value through other comprehensive income reserve*# HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
91,078	(32,935)	117,525	–	3,421,989	4,804,881	343,245	5,148,126
–	–	(117,525)	250,536	(141,491)	(8,480)	(758)	(9,238)
91,078	(32,935)	–	250,536	3,280,498	4,796,401	342,487	5,138,888
–	–	–	–	–	511	–	511
–	–	–	–	–	–	–	–
–	–	–	–	–	–	(2,045)	(2,045)
–	–	–	–	–	–	(10,556)	(10,556)
–	–	–	–	–	511	(12,601)	(12,090)
–	–	–	–	167,100	167,100	26,477	193,577
–	(44,517)	–	–	–	(44,517)	(10,076)	(54,593)
–	–	–	(156,087)	–	(156,087)	–	(156,087)
–	(44,517)	–	(156,087)	167,100	(33,504)	16,401	(17,103)
91,078	(77,452)	–	94,449	3,447,598	4,763,408	346,287	5,109,695

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**37,072**	165,365
Cash flows from investing activities		
Dividend received from available-for-sale financial assets	**1,111**	3,436
Payment for the purchase of property, plant and equipment	**(47,999)**	(47,296)
Consideration receivable on disposal of property, plant and equipment	**–**	13,869
Decrease in short-term investment	**–**	50,442
Proceeds on disposal of subsidiaries	**–**	629,789
Proceeds on disposal of property, plant and equipment	**4,499**	2,302
Increase in held-to-maturity investments	**–**	(228,544)
Increase in other financial assets at amortised costs	**(50,626)**	–
Other cash flows arising from investing activities	**32,959**	(53,867)
Net cash (used in)/generated from investing activities	**(60,056)**	370,131
Cash flows from financing activities		
Repayments of borrowings	**(222,249)**	(295,199)
Proceeds from borrowings	**9,695**	119,377
Interest paid	**(27,142)**	(33,991)
Dividend paid to non-controlling interests	**(10,556)**	(17,570)
Other cash flows arising from financing activities	**(91,604)**	10,632
Net cash used in financing activities	**(341,856)**	(216,751)
Net (decrease)/increase in cash and cash equivalents	**(364,840)**	318,745
Cash and cash equivalents at the beginning of the period (note)	**7,366,212**	4,949,188
Effect of foreign exchange rates changes	**346,513**	52,658
Cash and cash equivalents at the end of the period (note)	**7,347,885**	5,320,591

Note: Cash and cash equivalents comprised cash and bank balances and bank overdrafts for the purpose of condensed consolidated statements of cash flows.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

1. General Information

Citychamp Watch & Jewellery Group Limited (the "Company") is a limited liability company incorporated in Cayman Islands. Its registered office address is P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the period, the principal activities of the Company and its subsidiaries (together referred to as the "Group") include:

- Manufacturing and distribution of watches and timepieces;
- Property investments; and
- Banking and financial businesses.

There was no other significant change in the Group's operations during the period.

The Group's principal places of the business are in Hong Kong, Switzerland, United Kingdom, Liechtenstein and the People's Republic of China (the "PRC").

2. Basis of Preparation

The unaudited condensed interim financial information ("the Unaudited Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Unaudited Interim Financial Information is presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The Unaudited Interim Financial Information for the six months ended 30 June 2018 was approved for issue by the board of directors on 30 August 2018.

3. Summary of Significant Accounting Policies

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of computation used in the 2017 Annual Financial Statements, except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual HKFRSs, HKAS and Interpretations ("Int"). The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2017 Annual Financial Statements.

This is the first set of the Group's financial statements in which HKFRS 9 and HKFRS 15 have been adopted. The impact of the adoption of HKFRS 9 Financial Instruments (see note 3(a) below) and HKFRS 15 Revenue from Contracts with Customers (see note 3(b) below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

(a) HKFRS 9 Financial Instruments ("HKFRS 9")

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the Unaudited Interim Financial Information.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

	HK$'000
Retained profits	
Retained profits as at 31 December 2017	3,421,989
Increase in expected credit losses ("ECL") (note 3(a)(ii) below)	(12,280)
Reclassification of trading portfolio investments to financial assets at fair value through other comprehensive income ("FVOCI") (note 3(a)(i)(a) below)	(131,974)
Reclassification of the entire convertible bond investment to trading portfolio investments (note 3(a)(i)(f) below)	1,621
Reclassification of available-for-sale financial assets to other financial assets at amortised cost (note 3(a)(i)(c) below)	(134)
Reclassification of available-for-sale financial assets to trading portfolio investments (note 3(a)(i)(e) below)	(903)
Recognition of deferred tax assets arising from the recognition of ECL	2,179
Restated retained profits as at 1 January 2018	3,280,498
Non-controlling interests	
Non-controlling interests as at 31 December 2017	343,245
Increase in ECL (note 3(a)(ii) below)	(868)
Recognition of deferred tax assets arising from the recognition of ECL	110
Restated non-controlling interests as at 1 January 2018	342,487

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

	HK$'000
Investment revaluation reserve	
Investment revaluation reserve at 31 December 2017	117,525
Reclassification of available-for-sale financial assets to financial assets at FVOCI (note 3(a)(i)(b) below)	(118,562)
Reclassification of available-for-sale financial assets to other financial assets at amortised cost (note 3(a)(i)(c) below)	134
Reclassification of available-for-sale financial assets to trading portfolio investments (note 3(a)(i)(e) below)	903
Restated investment revaluation reserve as at 1 January 2018	–
FVOCI reserve	
FVOCI reserve as at 31 December 2017	–
Reclassification of trading portfolio investments to financial assets at FVOCI (note 3(a)(i)(a) below)	131,974
Reclassification of available-for-sales financial assets to financial assets at FVOCI (note 3(a)(i)(b) below)	118,562
Restated FVOCI reserve as at 1 January 2018	250,536

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments except for the embedded derivatives. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost; (ii) financial assets at FVOCI; or (iii) financial assets at FVPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been designated as at FVPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if both of the following conditions are met and it has not been designated as at FVPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following accounting policies would be applied to the Group's financial assets as follows:

Financial assets at FVPL	Financial assets at FVPL are subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Financial assets at amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
Financial assets at FVOCI (debt investments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
Financial assets at FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

(a) As at 1 January 2018, certain listed equity investments were reclassified from trading portfolio investments to financial assets at FVOCI. The Group intends to hold these equity investments for long term strategic purposes. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as financial assets at FVOCI. As a result, financial assets with a fair value of HK$506,863,000 were reclassified from trading portfolio investments to financial assets at FVOCI and accumulated fair value gains of HK$131,974,000 were reclassified from retained profits to FVOCI reserve on 1 January 2018.

(b) In addition to (a) above, certain listed equity investments were reclassified from available-for-sale financial assets to financial assets at FVOCI. The Group intends to hold these equity investments for long term strategic purposes. As a result, the carrying amount of these listed equity investments of HK$237,959,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and accumulated fair value surplus of HK$118,562,000 were reclassified from investment revaluation reserve to FVOCI reserve on 1 January 2018.

(c) As at 1 January 2018, listed debt instruments were reclassified from available-for-sale financial assets to other financial assets at amortised cost as the Group's business model is hold-to-collect contractual cash. These listed debt instruments meet the SPPI criterion. As such, listed debt instruments with a carrying amount of HK$178,747,000 were reclassified from available-for-sale financial assets to other financial assets at amortised cost and accumulated fair value deficits of HK$134,000 were reclassified from investment revaluation reserve to retained profits on 1 January 2018.

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

(d) As at 1 January 2018, certain equity investments were reclassified from available-for-sale financial assets to financial assets at FVOCI. These equity investments were previously stated at cost as they do not have quoted price in an active market. The Group intends to hold these equity investments for long term strategic purposes. Therefore, the Group has now designated these equity investments at the date of initial application as financial assets at FVOCI. As at 1 January 2018, the previous carrying amount of these equity investments of HK$6,023,000 was assessed as approximate to the fair value.

(e) As at 1 January 2018, certain investments in other financial products stated at fair value were reclassified from available-for-sale financial assets to trading portfolio investments as these unlisted investments failed to meet the SPPI criterion. As such, these investments at fair value of HK$65,639,000 were reclassified from available-for-sale investments to trading portfolio investments and the fair value deficits of HK$903,000 were reclassified from investment revelation reserve to retained profits on 1 January 2018.

(f) As at 1 January 2018, the entire of debt component and conversion option component of the convertible bond investment were combined and reclassified to trading portfolio investments. The conversion option component causes the financial assets to fail to meet the SPPI criterion. This is because the embedded feature cannot be separated and the contractual terms of that convertible bond receivable as a whole do not give rise solely to payments of principal and interest on the principal amount outstanding of the convertible bond investment. As a result, that convertible bond investment as a whole is classified as trading portfolio investments. As at 1 January 2018, the difference between the previous carrying amount and the fair value of HK$1,621,000 has been adjusted in the opening retained profits.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK$'000	Effect of adoption of HKFRS 9 HK$'000	Carrying amount as at 1 January 2018 under HKFRS 9 HK$'000
Cash and deposits	Loans and receivables	Amortised cost	7,420,678	–	7,420,678
Due from clients	Loans and receivables	Amortised cost	1,011,516	(3,335)	1,008,181
Due from banks except for precious metal	Loans and receivables	Amortised cost	5,875,901	(2,179)	5,873,722
Due from banks – precious metal	Financial assets at FVPL	FVPL	45,977	–	45,977
Trading portfolio investments	Financial assets at FVPL	FVPL	134,168	–	134,168
Trading portfolio investments	Financial assets at FVPL (note 3(a)(i)(a))	FVOCI	506,863	–	506,863
Derivative financial assets except for conversion option component	Financial assets at FVPL	FVPL	4,609	–	4,609
Trade receivables	Loans and receivables	Amortised cost	506,287	(1,793)	504,494
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(b))	FVOCI	237,959	–	237,959
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(c))	Amortised cost	178,747	(28)	178,719
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(e))	FVPL	65,639	–	65,639
Available-for-sales financial assets	Available-for-sale (at cost) (note 3(a)(i)(d))	FVOCI	6,023	–	6,023
Held-to-maturity investments	Loans and receivables	Amortised cost	1,138,704	(500)	1,138,204
Other assets except for debt component	Loans and receivables	Amortised cost	442,177	(5,313)	436,864
Convertible bond investment	Conversion option component: Financial assets at FVPL Debt component: Loans and receivables (note 3(a)(i)(f))	As a whole: FVPL	8,492	1,621	10,113

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) *Classification and measurement of financial instruments (Continued)*

At the date of initial application of HKFRS 9, the Company's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

As at 1 January 2018	Trading portfolio investments HK$'000	Derivative financial assets HK$'000	Available-for-sale financial assets HK$'000	Held-to-maturity investments HK$'000	Other assets HK$'000	Other financial assets at amortised cost HK$'000	Financial asset at FVOCI HK$'000
Opening balance – HKAS 39	641,031	4,680	488,368	1,138,704	450,598	–	–
Reclassification of trading portfolio investments to financial assets FVOCI	(506,863)	–	–	–	–	–	506,863
Reclassification of available-for-sale financial assets to other financial assets at amortised cost	–	–	(178,747)	–	–	178,747	–
Reclassification of available-for-sale financial assets to trading portfolio investments	65,639	–	(65,639)	–	–	–	–
Reclassification of available-for-sale financial assets to financial assets at FVOCI	–	–	(243,982)	–	–	–	243,982
Reclassification of held-to-maturity investments to other financial assets at amortised cost	–	–	–	(1,138,704)	–	1,138,704	–
Reclassification of entire convertible bond investment to trading portfolio investments	8,492	(71)	–	–	(8,421)	–	–
Effect of initial adoption of HKFRS 9	1,621	–	–	–	–	–	–
Recognition of additional expected credit losses	–	–	–	–	(5,313)	(528)	–
Opening balance – HKFRS 9	209,920	4,609	–	–	436,864	1,316,923	750,845

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECL") model". HKFRS 9 requires the Group to recognised ECL for due from clients, due from banks, trade receivables and other financial assets at amortised costs and other assets earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is assessed to be immaterial.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECL: these are the ECL that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECL based on lifetime ECL. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL are based on the 12-months ECL. The 12-months ECL is the portion of the lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(ii) Impairment of financial assets (continued)

Measurement of ECL (continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

Presentation of ECL

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECL which adopts a life time ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(b) Impairment of debt investments

The Group's debt investments are measured at amortised costs and are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECL.

(c) Impairment of due from clients and due from banks

The Group's due from clients and due from banks except for precious metal are measured at amortised costs. ECL is determined by reference to the estimation of the exposure at default ("EAD"), probability of default ("PD") as well as a loss given default ("LGD"). The balances are considered low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECL.

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(ii) Impairment of financial assets (continued)

Impact of the ECL model (continued)

(d) Impairment of other assets

Other assets at amortised cost of the Group includes dividend receivable from an associate, consideration receivable in respect of disposal of subsidiaries, amounts due from an associate and related companies, other interest receivables and other receivables.

As a result of the above change, the following table summarises the impact of the new HKFRS 9 impairment model results in additional expected credit losses as at 1 January 2018 as follows:

	HK$'000
Recognition of additional expected credit losses on:	
– Due from clients	3,335
– Due from banks	2,179
– Trade receivables	1,793
– Other financial assets at amortised cost	528
– Other assets	5,313
Total additional expected credit losses	13,148

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECL rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

3. Summary of Significant Accounting Policies (Continued)

(a) HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(iii) Transition (continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVPL; and

- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect transition method. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018) if any. As a result, the financial information presented for 2017 has not been restated.

HKFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Group has assessed the impacts of adopting HKFRS 15 on its condensed consolidated financial statements and has no significant impact on the Group's revenue recognition.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

3. Summary of Significant Accounting Policies (Continued)

(b) HKFRS 15 Revenue from Contracts with Customers (Continued)

Revenue from sales of goods is recognised at a point in time as when the control of the goods has been transferred to the customers and there is no unfulfilling performance obligation after the acceptance of the goods. Service fees and commission income are recognised when the relevant services provided to the customers and there is no unfulfilling performance obligation after the services rendering.

Upon the adoption of HKFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognised a contract asset. No contract asset is recognised upon transition and at the end of reporting period. If the Group does not satisfied any performance obligation but the Group has an unconditional right to consideration, the Group should recognised contract liabilities. No contract liabilities is recognised upon transition.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

The Group makes estimates and assumptions concerning the future. Such estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

Estimated impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment. The recoverable amounts of the cash generating units have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the cash generating units, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors.

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective estimated net realisable value. The assessment of the provision involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

Depreciation and amortisation

The Group depreciates and amortises its property, plant and equipment and intangible assets with definite useful lives using straight-line method over their respective estimated useful lives, starting from the date on which the assets are put into productive use. The estimated useful lives reflect the directors’ estimate of the period that the Group intends to derive future economic benefits from the use of these assets.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Estimated impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables on a forward-looking basis. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade and other receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. Other receivables is considered 12-months expected credit losses. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

Impairment of non-financial assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Income taxes

The Group is subject to income taxes in Hong Kong, Switzerland, United Kingdom, Liechtenstein and the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the payments of related taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Warranty provision

Warranty provision is made for expenditure associated with future variable services and repair cost related to warranty claims. The management makes an assessment of the future costs related to this work by using the proportion of actual tasks related to warranty work as the basis for the calculation. The assessment of provision involves management judgement and estimates. When the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of warranty provision and provision charge/write-back in the period in which such estimate has been changed.

Estimation of defined benefit obligations

The Group operates three defined benefit plans. Pension costs for defined benefit plans are assessed using the projected unit credit method in accordance with HKAS 19 (2011), Employee Benefits. Under this method, the cost of providing pensions is charged to the profit or loss in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. All actuarial gains and losses are recognised in full, in the year in which they occur, in other comprehensive income.

Management appointed actuaries to carry out a full valuation of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the requirements of HKFRSs.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Valuation adjustments on credit positions

Various factors can influence the expected credit loss allowances for credit positions. Management considers factors such as external rating and days past due to determine the HKFRS 9 staging allocation. Management further estimates the EAD, PD as well as LGD to calculate the expected credit losses allowance.

Provisions

The Group recognises provisions for imminent threats if in the opinion of the responsible experts the probability that losses will occur is greater than the probability that they will not occur and if their amount can be reliably estimated. In judging whether the creation of a provision and its amount are reasonable, the best-possible estimates and assumptions as at the end of reporting periods are applied. If necessary, these will be adjusted to reflect new knowledge and circumstances at a later date. New knowledge may have a significant effect to profit or loss.

Research and development costs

In accordance with the accounting policy set out in note 4.12 of 2017 Annual Financial Statements, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as intangible assets provided they meet all the requirements as set out in note 4.12 of 2017 Annual Financial Statements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits. Because of the nature of the Group's research and development activities the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the projects. Hence research costs are generally recognised as expenses in the period in which they are incurred.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

– Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

– Level 2: observable inputs other than quoted price included with Level 1; and

– Level 3: unobservable inputs are inputs for which market data are not available.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the following items at fair value:

– Due from banks – precious metal

– Trading portfolio investments

– Derivative financial assets

– Derivative financial liabilities

– Financial assets at fair value through other comprehensive income

– Investment properties

– Due to clients – precious metal

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

5. Segment Information

The chief operating decision-maker is identified as executive directors. The executive directors have identified the Group's product and service lines as operating segments as follows:

(a) manufacture and distribution of watches and timepieces;

(b) property investments; and

(c) banking and financial businesses.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)
For the six months ended 30 June 2018

5. Segment Information (Continued)

	Six months ended 30 June 2018			
	Watches and timepieces HK$'000 (Unaudited)	Property investments HK$'000 (Unaudited)	Banking and financial businesses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue:				
Net interest income from banking business	–	–	85,166	85,166
Net service fees and commission income from banking business	–	–	117,068	117,068
Trading income from banking business	–	–	36,185	36,185
Service fees and commission income from financial business	–	–	1,752	1,752
Interest income from financial business	–	–	104	104
Sales of goods from non-banking and financial businesses	1,234,892	–	–	1,234,892
Rental income from non-banking and financial businesses	–	2,640	–	2,640
Total revenue	1,234,892	2,640	240,275	1,477,807
Segment results	177,233	1,914	109,162	288,309
Unallocated corporate income and expenses, net				(20,751)
Share of loss of joint ventures				(1,433)
Share of profit of associates				5,278
Finance costs				(27,207)
Profit before income tax				244,196
Income tax expense				(50,619)
Profit for the period				193,577

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

5. Segment Information (Continued)

	Six months ended 30 June 2017			
	Watches and timepieces HK$'000 (Unaudited)	Property investments HK$'000 (Unaudited)	Banking and financial businesses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue:				
Net interest income from banking business	–	–	35,354	35,354
Net service fees and commission income from banking business	–	–	101,785	101,785
Trading income from banking business	–	–	24,600	24,600
Service fees and commission income from financial business	–	–	6,207	6,207
Interest income from financial business	–	–	47	47
Sales of goods from non-banking and financial businesses	1,263,191	–	–	1,263,191
Rental income from non-banking and financial businesses	–	9,951	–	9,951
Total revenue	1,263,191	9,951	167,993	1,441,135
Segment results	146,496	17,483	54,858	218,837
Unallocated corporate income and expenses, net				(98,531)
Share of profit of associates				8,400
Finance costs				(33,991)
Profit before income tax				94,715
Income tax expense				(50,452)
Profit for the period				44,263

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

6. Revenue

The Group is principally engaging in manufacture and distribution of watches and timepieces, property investments and banking and financial businesses.

For banking and financial businesses, revenue mainly comprises net interest income, net service fees and commission income and net trading income. For non-banking and financial businesses, revenue mainly represents the net invoiced value of goods sold, after allowance for returns and trade discounts and rental income received and receivables.

Revenue recognised during the period is as follows:

(a) Net interest income from banking business

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest income from banking business arising from:		
Interest income – due from banks	**79,918**	31,542
Interest income – due from clients	**14,170**	21,162
Interest income from trading portfolio investments	**63**	94
Interest income from mortgage loans	**3,009**	1,770
Interest income from available-for-sale financial assets	**–**	668
Interest income from held-to-maturity investments	**–**	2,219
Interest income from debt instruments	**5,319**	–
Interest income from money market papers	**2,906**	5
Negative interest expense on due to clients	**(52)**	(512)
	105,333	56,948
Interest expenses from banking business arising from:		
Interest expense on due to banks	**(18,229)**	(9,152)
Interest expense on due to clients	**(149)**	(842)
Interest expense for issued debt instruments	**(1,665)**	(1,683)
Negative interest income on due from banks and clients	**(124)**	(9,917)
	(20,167)	(21,594)
Net interest income from banking business	**85,166**	35,354

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

6. Revenue (Continued)

(b) Net service fees and commission income from banking business

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Service fees and commission income from banking business arising from:		
Commission income from loans	**1,431**	1,221
Brokerage fees	**18,833**	21,633
Custody account fees	**12,915**	12,973
Commission on investment advice and asset management	**55,264**	42,346
Commission income from service fees	**44,665**	37,851
Commission income from fiduciary fees	**356**	383
Commission income from retrocession	**1,893**	1,995
Other commission income	**25,753**	26,632
	161,110	145,034
Service fees and commission expenses from banking business	**(44,042)**	(43,249)
Net service fees and commission income from banking business	**117,068**	101,785

(c) Trading income from banking business

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Debt instruments	**74**	269
Securities	**5**	113
Forex and precious metals	**36,146**	24,103
Funds	**(40)**	115
Trading income from banking business	**36,185**	24,600

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)
For the six months ended 30 June 2018

6. Revenue (Continued)

(d) Revenue from financial business

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Service fees and commission income	**1,752**	6,207
Interest income	**104**	47
Revenue from financial business	**1,856**	6,254

(e) Revenue from non-banking and financial businesses

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Sale of goods	**1,234,892**	1,263,191
Rental income	**2,640**	9,951
Revenue from non-banking and financial businesses	**1,237,532**	1,273,142

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

7. Other Ordinary Income and Other Net Gains or Losses

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Gain/(loss) on fair value changes in trading portfolio investments, net (note 14)	**15,655**	(44,056)
Gain on fair value changes in derivative financial instruments, net (note 16)	**–**	3,522
Bank and other interest income from non-banking and financial business	**6,281**	1,133
Dividend income from trading portfolio investments	**1,111**	–
Dividend income from financial asset at FVOCI (note 15)	**11,481**	–
Dividend income from available-for-sale financial assets	**–**	3,436
(Loss)/gain on disposal of property, plant and equipment	**(34)**	12,816
Government subsidies	**19,039**	20,591
Other sundry income	**9,394**	6,195
	62,927	3,637

8. Finance Costs from Non-Banking Business

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interests charged on corporate bonds	**12,424**	14,248
Interests charged on bank borrowings and bank overdrafts	**14,783**	19,743
Margin loan interest	**106**	–
	27,313	33,991

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

9. Profit Before Income Tax

The Group's profit before income tax was arrived at after charging:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Depreciation	**51,469**	46,904
Amortisation of prepaid land lease payments	**630**	475
Amortisation of intangible assets	**936**	1,725

10. Income Tax Expense

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax for the period		
PRC	**39,034**	47,953
Liechtenstein	**13,574**	6,455
Switzerland	**602**	241
Under-provision in respect of prior periods		
PRC	**851**	7
Deferred tax for the period	**(3,442)**	(4,204)
Total income tax expense	**50,619**	50,452

For both the six months ended 30 June 2018 and 2017, no provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong. The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (Six months ended 30 June 2017: between 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

The Group is subject to PRC withholding tax at the rate of 5% or 10% in respect of its PRC sourced income earned, including rental income from properties in PRC, dividend income derived from PRC incorporated company and profit arising from the transfer of equity interest in PRC incorporated company.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

11. Dividends

11.1 Dividends attributable to the interim period were as follows:

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2018 (Six months ended 30 June 2017: Nil).

11.2 Dividends attributable to the previous financial year and approved during the period were as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Special dividend of HK5 cents per share (note (a))	**–**	217,516
Final dividend of HK6 cents per share (2016: nil) (note (b))	**261,113**	–
	261,113	217,516

Notes:

(a) The dividend payable for special dividend as at 30 June 2017 was HK$217,516,000. During the six months ended 30 June 2017, 3,500,000 ordinary shares were issued due to exercise of share options. The aforementioned issuance of ordinary shares were completed before the closure of members' register on 5 June 2017. As such, ordinary shares newly issued during the six months ended 30 June 2017 were entitled to the special dividend.

(b) The dividend payable for 2017 final dividend as at 30 June 2018 was HK$261,113,000. During the six months ended 30 June 2018, 1,575,000 ordinary shares were issued due to exercise of share options. The aforementioned issuance of ordinary shares were completed before the closure of members' register on 29 June 2018. As such, ordinary shares newly issued during the six months ended 30 June 2018 were entitled to the 2017 final dividend.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

12. Earnings Per Share

The calculations of the basic and diluted earnings per share attributable to owners of the Company are based on the following data:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	**167,100**	27,615

	Number of shares	
	Six months ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of shares for the purpose of calculating basic earnings per share	**4,350,844**	4,350,313
Effect of dilutive potential shares: – share options issued by the Company	**5,291**	5,722
Weighted average number of shares for the purpose of calculating diluted earnings per share	**4,356,135**	4,356,035

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

13. Due from Banks and Clients

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Due from clients – mortgage loans	**513,849**	359,956
Due from clients – other	**663,054**	654,591
Expected credit losses/valuation adjustments for default risk	**(6,874)**	(3,031)
Total due from clients	**1,170,029**	1,011,516
Due from banks on a daily basis	**5,738,272**	5,808,499
Due from banks other claims	**160,992**	113,571
Expected credit losses/valuation adjustments for default risk	**(3,197)**	(192)
Total due from banks	**5,896,067**	5,921,878

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

14. Trading Portfolio Investments

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Equity instruments		
Listed equity instruments in Hong Kong at market value	**84,487**	556,634
Listed equity instruments outside Hong Kong at market value	**48,812**	42,579
Total equity instruments	**133,299**	599,213
Debt instruments		
Debt instruments of financial institutions listed outside Hong Kong	**14,155**	33,878
Unlisted debt instruments of financial institutions	**–**	2,733
Total debt instruments	**14,155**	36,611
Investment fund units		
Investment fund units listed outside Hong Kong	**2,002**	3,228
Unlisted investments fund units	**1,839**	1,979
Total investment fund units	**3,841**	5,207
Investments in other financial products	**41,016**	–
Convertible bond investment	**9,994**	–
Total trading portfolio investments	**202,305**	641,031

The investments under trading portfolio investments are held for trading purposes.

There is no transfer under the fair value hierarchy classification for the six months ended 30 June 2018 and year ended 31 December 2017.

The fair value gain during the period was amounted to HK$15,655,000 (Six months ended 30 June 2017: fair value loss of HK$44,056,000), which has been recognised in the condensed consolidated statement of comprehensive income as "other ordinary income and other net gains or losses" (note 7) for six months ended 30 June 2018.

As at 30 June 2018, no listed equity instruments (31 December 2017: HK$56,366,000) have been pledged to secure the margin loan payable.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

15. Financial Assets at Fair Value through Other Comprehensive Income

	30 June 2018 HK$'000 (Unaudited)
Listed equity instruments in Hong Kong (note (a))	**446,039**
Listed equity instruments outside Hong Kong (note (b))	**142,998**
Unlisted equity investments	**5,944**
Total	**594,981**

Notes:

(a) As at 30 June 2018, the listed equity investments in Hong Kong represented 14.76% equity interest in Min Xin Holdings Limited ("Min Xin Shares"). As at 30 June 2018, the Group held 88,150,000 Min Xin Shares. A dividend income totalling HK$6,993,000 was recognised by the Group in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2018.

(b) As at 30 June 2018, the listed equity investments outside Hong Kong represented 2.04% equity interest in Citychamp Dartong Company Limited ("Citychamp Dartong Shares") listed in Shanghai Stock Exchange in the PRC. As at 30 June 2018, the Group held 30,389,058 Citychamp Dartong Shares. A dividend income totalling HK$4,488,000 was recognised by the Group in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2018.

During the period, the decrease in fair value of financial assets at fair value through other comprehensive income of HK$156,087,000 has been dealt with in other comprehensive income and FVOCI reserve.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

16. Derivative Financial Instruments

	Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
Derivative financial assets			
Convertible bond investment			
– Conversion option component	(a)	**–**	71
Forward and option contracts	(b)	**21,980**	4,609
		21,980	4,680
Derivative financial liabilities			
Forward and option contracts	(b)	**(6,727)**	(35,656)
		(6,727)	(35,656)

Notes:

(a) Convertible bond investment – Conversion option component

The Group has subscribed a convertible bond issued by a company listed in Hong Kong, which is due on 1 December 2018 and convertible into fully paid ordinary shares with a par value of HK$0.1 each at an initial conversion price of HK$5, subject to adjustment on the occurrence of dilutive or concentrative event. The Group can exercise the conversion at any time until the maturity date and the convertible bond cannot be redeemed before maturity date (in whole or in part).

The principal amount of the convertible bond was HK$10,000,000, which carries interest at 8% per annum payable every six months in arrears. There was no disposal or conversion of the convertible bond for the six months ended 30 June 2018 and year ended 31 December 2017.

Before the adoption of HKFRS 9, the convertible bond is separated into two components: the debt component and the conversion option component. The Group had classified the debt component of the convertible bond as loans and receivables and the conversion option component of the convertible bond as derivative financial instruments as at 31 December 2017. At 1 January 2018, the convertible bond investment was reclassified to trading portfolio investments as a whole upon the adoption of HKFRS 9.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

16. Derivative Financial Instruments (Continued)

Notes: (Continued)

(a) Convertible bond investment – Conversion option component (Continued)

The carrying amounts of the debt component and conversion option component of the convertible bond are as follows:

	Debt component HK$'000 (Unaudited)	Conversion option component HK$'000 (Unaudited)	Trading portfolio investments HK$ (Unaudited)	Total HK$'000 (Unaudited)
At 1 January 2018, as original presented	**8,421**	**71**	**–**	**8,492**
Reclassification upon the adoption of HKFRS 9	**(8,421)**	**(71)**	**8,492**	**–**
Effect of initial application of HKFRS 9	**–**	**–**	**1,621**	**1,621**
At 1 January 2018, as restated	**–**	**–**	**10,113**	**10,113**

	Debt component HK$'000 (Audited)	Conversion option component HK$'000 (Audited)	Total HK$'000 (Audited)
At 1 January 2017	7,098	82	7,180
Interest receivable	(800)	–	(800)
Effective interest income	2,123	–	2,123
Change in the fair value of conversion option component	–	(11)	(11)
At 31 December 2017	8,421	71	8,492

The fair value gain of the conversion option component was HK$3,522,000 for six months ended 30 June 2017, which had been recognised as" other ordinary income and other net gains of losses"(note 7) in the condensed consolidated statement of comprehensive income.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

16. Derivative Financial Instruments (Continued)

Notes: (Continued)

(b) Forward and option contracts arising in banking business

The Group's subsidiaries under the banking business segment act as an intermediary to offer derivative products including interest rate and currency forwards and swap to its customers. These derivative positions are managed through entering back-to-back deals with external parties to ensure the remaining exposures are within acceptable risk levels.

The following tables and notes provide an analysis of the nominal amounts of derivatives and the corresponding fair values as at the year ended date. The nominal amounts of the derivatives indicate the volume of transactions outstanding as at the reporting date; they do not represent amounts at risk.

	30 June 2018		
	Nominal amount HK$'000 (Unaudited)	**Assets HK$'000 (Unaudited)**	**Liabilities HK$'000 (Unaudited)**
Non-hedging instruments			
– Currency derivatives	**3,454,300**	**21,980**	**(6,727)**
– Option	**8,697**	**–***	**–***
	3,462,997	**21,980**	**(6,727)**

	31 December 2017		
	Nominal amount HK$'000 (Audited)	Assets HK$'000 (Audited)	Liabilities HK$'000 (Audited)
Non-hedging instruments			
– Currency derivatives	3,093,502	4,609	(35,656)
– Option	9,027	–*	–*
	3,102,529	4,609	(35,656)

* Represents the amount less than HK$1,000.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

17. Trade Receivables

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade receivables arising from watches and timepiece business (note (a))	**554,005**	500,980
Trade receivables arising from financial business (note (b)):		
– Margin clients	**940**	531
– Cash clients	**2,959**	3,197
– Clearing house	**–**	1,579
	3,899	5,307
Trade receivables, net	**557,904**	506,287

(a) The Group's trading terms with its customers of watches and timepieces business are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (31 December 2017: one to six months) for major customers. Each customer has a maximum credit limit. The credit term for customers is determined by the management according to industry practice together with consideration of their creditability. Trade receivables are non-interest bearing.

Ageing analysis of trade receivables arising from watches and timepieces business as at the reporting dates, based on invoice date, and net of expected credit losses/ provisions, is as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
1 to 3 months	**445,812**	407,744
4 to 6 months	**31,636**	44,480
Over 6 months	**76,557**	48,756
	554,005	500,980

As at 30 June 2018, trade receivables of HK$15,192,000 (31 December 2017: HK$20,724,000) have been pledged to secure banking facilities granted to the Group during the period (note 25).

17. Trade Receivables (Continued)

(b) The settlement term of trade receivables arising from the financial business of securities dealing is two business days after trade date ("T+2").

In the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing.

18. Other Financial Assets at Amortised Cost

	30 June 2018 HK$'000 (Unaudited)
Listed debt instruments, at amortised cost	**1,404,243**
Issued by:	
Governments and public sector	**366,999**
Financial institutions	**753,020**
Corporations	**284,224**
	1,404,243

19. Inventories

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Raw materials	**573,677**	369,402
Work-in-progress	**136,297**	313,621
Finished goods and merchandise	**1,257,616**	1,344,168
	1,967,590	2,027,191

20. Property, Plant and Equipment

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of HK$47,999,000 (Six months ended 30 June 2017: HK$47,296,000). Property, plant and equipment of HK$4,533,000 were disposed of during the six months ended 30 June 2018 (Six months ended 30 June 2017: HK$2,524,000).

As at 30 June 2018, land and buildings in Switzerland with an aggregate carrying amount of HK$91,324,000 (31 December 2017: HK$117,871,000) have been pledged to secure banking facilities granted to the Group (note 25).

21. Investment Properties

As at 30 June 2018, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying amount of HK$43,318,000 (31 December 2017: HK$43,318,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

22. Goodwill

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Balance at the beginning of period/year	**906,036**	862,834
Acquisition of subsidiaries	**–**	3,080
Impairment loss	**–**	(19,000)
Exchange realignment	**(11,205)**	59,122
Balance at the end of period/year	**894,831**	906,036

23. Trade Payables

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade payables arising from watches and timepiece business (note (a))	**277,159**	262,629
Trade payables arising from financial business (note (b)):		
– Cash clients	**48,115**	40,276
– Margin clients	**12,243**	2,893
– Clearing house	**1,895**	–
	62,253	43,169
Trade payables	**339,412**	305,798

(a) Ageing analysis of trade payables arising from watches and timepieces business as at the reporting dates, based on invoice dates, is as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
1 to 3 months	**193,096**	172,581
4 to 6 months	**38,179**	23,410
Over 6 months	**45,884**	66,638
	277,159	262,629

(b) The settlement term of trade payables arising from the financial business of securities dealing is "T+2". Trade payables arising from financial business during the "T+2" period are current whereas those which are outstanding after the "T+2" period are repayable on demand.

In the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing.

24. Corporate Bonds

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
At 1 January	**732,978**	692,127
Amortisation of transaction cost	**2,147**	4,022
Sales of corporate bonds	**11,760**	392
Exchange realignment	**(8,119)**	36,437
	738,766	732,978

On 24 July 2014, the Group issued CHF denominated corporate bonds of principal amount of CHF100,000,000 bears interest at 3.625% per annum. The interests of the corporate bonds are paid in arrears on 24 July every year. The corporate bonds are listed in SIX Swiss Exchange in Switzerland and guaranteed by the Company. The corporate bonds will mature on 24 July 2019.

The Group may, at any time after the date of issuance and prior to the date of maturity, redeem the whole corporate bonds at 100% of the total principal amounts together with payments of interest accrued up to the dates of such early redemption by serving a prior notice to a period of not less than 30 days nor more than 60 days.

During the six months ended 30 June 2018, the Group has sold certain re-purchased corporate bonds with principal amount of CHF1,460,000 (equivalent to HK$11,625,000) (31 December 2017: CHF50,000 (equivalent to approximately HK$396,000)) at the consideration of CHF1,477,000 (equivalent to HK$11,760,000) (31 December 2017: CHF49,500 (equivalent to approximately HK$392,000)) in the public market.

During the six months ended 30 June 2018, the Group has not repurchased any corporate bonds (31 December 2017: Nil).

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

25. Borrowings

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Bank overdrafts (note 25.1)	**65,830**	54,466
Bank borrowings (note 25.1)	**317,767**	526,123
Margin loan payable (note 25.2)	**–**	2,680
	383,597	583,269

25.1 Bank overdrafts and bank borrowings

As at 30 June 2018, the amount of the Group's bank overdrafts and bank borrowings repayable within one year or on demand is HK$336,844,000 (31 December 2017: HK$564,498,000). The remaining balances are repayable over one year.

Based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause. Borrowings are repayable as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Borrowings payable:		
Within one year or on demand	**336,844**	564,498
In the second year	**31,545**	480
In the third to fifth year	**1,426**	1,441
After fifth year	**13,782**	14,170
	46,753	16,091
	383,597	580,589

25. Borrowings (Continued)

25.1 Bank overdrafts and bank borrowings (Continued)

At the reporting date, the Group's borrowings were secured by:

(i) corporate guarantees provided by subsidiaries within the Group as at 30 June 2018 and 31 December 2017.

(ii) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK$91,324,000 (31 December 2017: HK$117,871,000) (note 20).

(iii) certain of the Group's trade receivables with the carrying amounts of HK$15,192,000 (31 December 2017: HK$20,724,000) as the 30 June 2018 (note 17).

(iv) a personal guarantee of HK$27,600,000 provided by the director of a subsidiary as at 30 June 2018 and 31 December 2017.

Certain of bank overdrafts and bank borrowings contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has compiled with the covenants and met the scheduled repayment obligations. Borrowings due for repayment after one year which contain a repayment on demand clause and are expected to be settled within one year. The carrying amounts of the bank overdrafts and bank borrowings are approximate to their fair value.

25.2 Margin loan payable

As at 30 June 2018, there is no outstanding margin loan payable. As at 31 December 2017, the interest rate of the margin loan payable is 2.576% per annum and repayable on demand. As at 31 December 2017, margin loan payable was secured by the Group's trading portfolio investments with the carrying amount of HK$56,366,000 (note 14). The carrying amount of the margin loan payable is approximate to its fair value.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

26. Capital Commitments

At the reporting date, the Group had the following outstanding commitments:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Contracted, but not provided for:		
– Purchase of property, plant and equipment	**141,316**	5,265
– Investment in an associate – Citychamp Allied International Limited (note)	**270,000**	270,000
	411,316	275,265

Note: On 28 September 2016, Union United Investment Limited ("Union United"), a wholly-owned subsidiary of the Company, entered into an agreement with Citychamp Dartong (Hong Kong) Limited ("CD(HK)") and Fengrong Investment (Hong Kong) Company Limited ("FI(HK)"), in relation to the formation of the joint venture company ("JV Company") in the British Virgin Island. JV Company shall be owned as to 40% by FI(HK), 30% by CD(HK) and 30% by Union United. JV Company is engaged in potential overseas equity investment. Pursuant to the agreement, Union United agreed to contribute the maximum capital commitment of HK$270,000,000 to JV Company. Details of the transaction are set out in the Company's announcement dated 28 September 2016.

27. Related Party Transactions

27.1 Other than those disclosed elsewhere in the Unaudited Condensed Consolidated Interim Financial Information, the following transactions were carried out with related parties:

(i) Rental income

	Six months ended 30 June	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Rental income received (note (a))	**60**	60
Sub-lease income received (note (b))	**–**	171

27. Related Party Transactions (Continued)

27.1 **Other than those disclosed elsewhere in the Unaudited Condensed Consolidated Interim Financial Information, the following transactions were carried out with related parties:** (Continued)

(i) Rental income (Continued)

Notes:

(a) This was received from the executive director, Mr. Shi Tao and this was charged at HK$10,000 (six months ended 30 June 2017: HK$10,000) per month on average. The carrying amount of the Group's investment property which was rented to the executive director as quarter as at 30 June 2018 was HK$25,500,000 (31 December 2017: HK$25,500,000).

(b) Sub-lease income was received from a company of which Mr. Shang Jianguang, Ms. Sit Lai Hei and Mr. Hon Hau Wong, directors of the Company are also directors of the related company and this was charged nil (Six months ended 30 June 2017: HK$29,000) per month on average.

(ii) Transactions with an associate, Fair Future Industrial Limited ("Fair Future") and its subsidiaries

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Sales of goods	**–**	24
Purchases of goods	**21,115**	29,472

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

27. Related Party Transactions (Continued)

27.1 **Other than those disclosed elsewhere in the Unaudited Condensed Consolidated Interim Financial Information, the following transactions were carried out with related parties:** (Continued)

(iii) Outstanding balances included in trade receivables, other assets, trade payables and other liabilities

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Dividend receivable from an associate	**17,500**	17,500
Consideration receivable from an associate in respect of disposal of brand name	**–**	20,000
Due from an associate (note (a))	**5,750**	22,457
Due from related companies (note (b))	**1,065**	1,065
Due to associate (note (a))	**23**	346
Trade payables to associates	**27,826**	38,395

Notes:

(a) The balance was unsecured, interest-free and repayable on demand. The maximum amount outstanding during the period was HK$22,457,000 (31 December 2017: HK$24,588,000).

(b) The amounts were due from companies of which Mr. Shang Jianguang, Ms. Sit Lai Hei and Mr. Hon Hau Wong, directors of the Company are also the directors of the related companies. The balances were unsecured, interest-free and repayable on demand. The maximum amount outstanding during the period was HK$1,065,000 (31 December 2017: HK$1,065,000).

(iv) Financial guarantee provided to Fair Future

At 30 June 2018, the Group has provided a corporate guarantee of HK$60,000,000 (31 December 2017: HK$60,000,000) in respect of a revolving loan facility of up to HK$60,000,000 (31 December 2017: HK$60,000,000) granted to Fair Future. The corporate guarantee is ending on the expiry of the term of the revolving loan facility.

The above transactions were conducted in accordance with the terms mutually agreed between the Group, and the related companies controlled by the directors.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

27. Related Party Transactions (Continued)

27.2 Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**16,394**	15,415
Post-employment benefits	**99**	99
	16,493	15,514

28. Fair Value Measurements of Financial Instruments

The fair values of the Group's financial assets and financial liabilities are determined as follows:

- the fair values of listed equity investments, precious metal, debt instruments and investment fund units classified under due from banks, trading portfolio investments, financial asset at fair value through other comprehensive income and due to clients are determined by reference to their quoted market prices at the reporting date in active markets and have been translated using the spot foreign currency rates at the end of the reporting periods where appropriate.

- the fair value of certain equity investments under financial assets at fair value through other comprehensive income is determined based on the fair value of their underlying net assets.

- the fair values of unlisted debt instruments and investment fund units classified under trading portfolio investments have been determined using significant inputs, which are market observable, directly or indirectly.

- the fair value of convertible bond investment classified as level 3 financial assets, is determined by the directors of the Company with reference to the valuation performed by Asset Appraisal Limited, an independent professionally qualified valuer, by using valuation techniques such as Binomial Option Pricing Model. These valuation techniques maximise the use of observable market data where it is available for all significant inputs and rely as little as possible on entity specific estimates.

28. Fair Value Measurements of Financial Instruments (Continued)

- the fair values of derivative financial assets and liabilities are marked to market using the foreign exchange forward rates ruling at the end of each reporting periods.

- the fair value of unlisted investment in insurance policy is determined based on amount value as stated in cash surrender value statement issued by insurer.

- the fair value of unlisted financial product investments is determined based on the latest transaction price.

The following table provides an analysis of financial assets and financial liabilities carried at fair value by level of fair value hierarchy.

Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: observable direct and indirect inputs other than quoted prices included within Level 1; and

Level 3: unobservable inputs are inputs for which market data are not available.

	30 June 2018			
	Level 1 HK$'000 (Unaudited)	Level 2 HK$'000 (Unaudited)	Level 3 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Assets				
Due from banks – precious metal	53,843	–	–	53,843
Trading portfolio investments	147,454	9,730	45,121	202,305
Derivative financial assets	–	21,980	–	21,980
Financial assets at fair value through other comprehensive income	589,037	–	5,944	594,981
	790,334	31,710	51,065	873,109
Liabilities				
Due to clients – precious metal	53,648	–	–	53,648
Derivative financial liabilities	–	6,727	–	6,727
	53,648	6,727	–	60,375

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2018

28. Fair Value Measurements of Financial Instruments (Continued)

	31 December 2017			
	Level 1 HK$'000 (Audited)	Level 2 HK$'000 (Audited)	Level 3 HK$'000 (Audited)	Total HK$'000 (Audited)
Assets				
Due from banks – precious metal	45,946	–	–	45,946
Trading portfolio investments	633,091	7,940	–	641,031
Derivative financial assets	–	4,609	71	4,680
Available-for-sale financial assets at fair value	403,447	19,073	59,825	482,345
	1,082,484	31,622	59,896	1,174,002
Liabilities				
Due to clients – precious metal	45,865	–	–	45,865
Derivative financial liabilities	–	35,656	–	35,656
	45,865	35,656	–	81,521

There have been no significant transfers between Levels 1 and 2 in the reporting period.

The level in the fair value hierarchy within which the financial assets and financial liabilities are categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

28. Fair Value Measurements of Financial Instruments (Continued)

The fair value of financial product investments is Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balances are provided as below.

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Opening balance (Level 3 recurring fair value)	**59,825**	–
Disposal	**(59,825)**	–
Acquisition	**35,127**	59,825
Closing balance (Level 3 recurring fair value)	**35,127**	59,825

The key inputs to determine the fair value of financial product investments are the latest transaction price on the same product. A higher in latest transaction price would result in an increase in the fair value of financial product investments, and vice versa.

The fair value of convertible bond investment is Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balances are provided as below.

	30 June 2018 HK$'000 (Unaudited)
At 1 January 2018, as original presented	**–**
Reclassification upon adoption of HKFRS 9	**8,492**
Effect of initial application of HKFRS 9	**1,621**
At 1 January 2018, as restated	**10,113**
Change in fair value recognised in profit or loss during the period	**(119)**
Closing balance (Level 3 recurring fair value)	**9,994**

The key significant unobservable inputs to determine the fair value of convertible bond investment are the stock price and expected volatility. A higher in the stock price and expected volatility would result in an increase in the fair value of the convertible bond investment, and vice versa.

Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)
For the six months ended 30 June 2018

28. Fair Value Measurements of Financial Instruments (Continued)

The fair value of certain equity investments is Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balances are provided as below.

	30 June 2018 HK$'000 (Unaudited)
At 1 January 2018, as original presented	–
Reclassification upon adoption of HKFRS 9	6,023
At 1 January 2018, as restated	6,023
Exchange realignments	(79)
Closing balance (Level 3 recurring fair value)	5,944

The key significant unobservable inputs to determine the fair value of equity investments are the fair value of underlying net assets. A higher in the fair value of underlying net assets would result in an increase in the fair value of equity investments, and vice versa.

29. Events after Reporting Period

Subscription of interest in a fund

On 20 July 2018, the Company has entered into the subscription agreement for the subscription of the interest in a fund with an initial capital commitment of US$30,000,000 (equivalent to approximately HK$235,500,000). Details of the transactions are set out in the Company's announcement dated 20 July 2018.

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