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Corporate Information

Board of directors

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

Company secretary

CHOI Pui Yiu

Auditor

Deloitte Touche Tohmatsu

Legal advisers

Stephenson Harwood
Conyers Dill & Pearman

Registered office

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2 Church Street
Hamilton HM 11
Bermuda

Website

www.artsgroup.com

Head office and principal place of business in Hong Kong

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27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Principal share registrar

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar

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

Principal bankers

Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 5% to HK$557.4 million during the six months ended 30th June, 2018 (2017: HK$528.8 million). A loss of HK$24.4 million was incurred during the period under review (2017: HK$65.4 million). Loss per share was 6.37 HK cents (2017: 17.06 HK cents).

Result in improvement of loss for the period under review mainly attributed to the lower depreciation charges after recognition of impairment losses of HK$510.0 million on the property, plant and equipment and prepaid lease payments at the end of the year of 2017. Gross margin ratio (being the ratio of gross profit to revenue) increased by 7% from 14% in the first half of 2017 to 21% in the corresponding period of 2018 due to:

(a) significant improvement in gross margins of distribution division;

(b) improvement in operation efficiency;

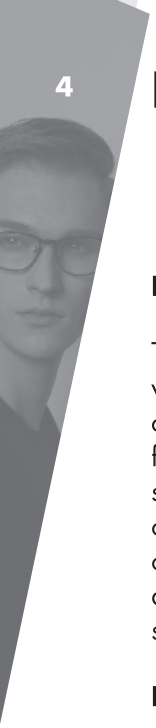
(c) reduction in depreciation charges after impairment of fixed assets in 2017;

(d) stringent control over operating expenses and staff headcount; and

(e) positive impact of economies of scale resulting from increase in sales and production volume.

Original design manufacturing ("ODM") division

As with the first half of 2017, revenue generated by the ODM division contributed towards 77% of the consolidated revenue of the Group in the period under review. Sales to ODM customers increased by 6% from HK$405.0 million in the first six months of 2017 to HK$430.8 million in the first six months of 2018. Geographically, sales to Europe, the United States (the "US"), Asia and other regions accounted for 51%, 38%, 10% and 1% respectively (2017: 50%, 39%, 11% and 0% respectively) of the revenue of the ODM division during the period under review. The Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 50%, 48% and 2% respectively of the revenue of this division during the first half of 2018 (2017: 53%, 45% and 2% respectively).



Management Discussion and Analysis

Distribution division

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, South Africa and independent distributors in other countries. In January 2018, the Group established a new distribution company in Shanghai, China to further expand our brand influence in the Asian market. Revenue of the distribution division increased slightly by 2% to HK$126.6 million (2017: HK$123.8 million) and accounted for 23% (2017: 23%) of the consolidated revenue during the first six months of 2018. Sales to Europe, Asia, the US and other regions accounted for 59%, 19%, 8% and 14% respectively of the revenue of the distribution division in the period under review (2017: 60%, 18%, 7% and 15% respectively). There is no significant change in sales by regions.

Financial position and liquidity

Cash flows

The Group recorded a net cash outflow from operating activities of HK$11.0 million during the period under review (2017: net cash inflow of HK$62.1 million). As the construction of the new buildings and leasehold improvements in the factory sites in Pingdi Town of Shenzhen City were completed at the second half of 2017, capital expenditure reduced significantly from HK$136.8 million in the first six months of 2017 to HK$9.3 million in the period under review. The net cash position of the Group (being the total of structured deposits, short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$291.7 million as at 31st December, 2017 to HK$280.6 million as at 30th June, 2018.

Working capital management

In line with the increase in revenue during the period under review, total amounts of trade debtors and bills receivable balances increased by 5% from HK$275.9 million as at 31st December, 2017 to HK$289.4 million as at 30th June, 2018. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 91 days in the first half of 2017 to 95 days in the period under review due to gradual increase in sales since the second quarter of 2018. Inventory balances decreased by 2% from HK$158.2 million as at 31st December, 2017 to HK$154.5 million as at 30th June, 2018. Inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 53 days in the first half of 2017 to 64 days in the period under review because more inventory was built up to meet the increase in sales orders in the third quarter of 2018. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.7 to 1.0 as at both 31st December, 2017 and 30th June, 2018. We expect the current ratio will continue stable in the second half of the year.

Gearing position

Despite the loss incurred by the Group in the first six months of 2018, the Group's gearing position remained low throughout the period under review. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at around 1% as at both 30th June, 2018 and 31st December, 2017. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$6.7 million as at 30th June, 2018 (31st December, 2017: HK$9.8 million).

Net asset value

The Company had 383,650,000 shares in issue as at both 30th June, 2018 and 31st December, 2017 with equity attributable to owners of the Company amounting to HK$1,104.2 million and HK$1,144.6 million as at 30th June, 2018 and 31st December, 2017 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2018 was HK$2.88 (31st December, 2017: HK$2.98).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and exchange rate movements between the US dollar and the Hong Kong dollar were relatively stable during the period under review.

PROSPECTS

Market outlook

Looking ahead, the second half of the 2018 will be full of uncertainty due to the rise of protectionism among the world's leading countries. The escalating global trade dispute and widespread rises in import tariffs between the US and China government would have a marked negative impact on both countries' economy and market sentiment in spending. Meanwhile, the United Kingdom has initiated Brexit negotiations with the European Union which haven't gone well so far. As a result, this imposes further uncertainty as it is not likely that an agreement can be reached in a short period of time. In view of the challenges ahead, the Group will work closely with key customers to obtain the latest information for market demand. In the meantime, the Group will continue to maintain a flexible production capacity planning so as to respond instantly to any rapid change in sales orders.

The increase in profit margin contribution from the distribution division demonstrates its growing importance in the future development of the Group. The Group will continue to seek business opportunities to increase the contribution of this division either through establishment of our own network or forming a joint venture with strategic distribution partner(s).

Margin pressure

The recent depreciation of Renminbi will definitely help to leverage the continuing growth of labour costs and other operating expenses in Mainland China. It is also the Company's long term strategy to increase business in low price products so to benefit from economies of scale.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2018, the Group employed approximately 5,300 full time staff in Mainland China, Hong Kong, Europe and South Africa which headcount has remained stable compared to the headcount at the year ended 31st December, 2017. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 30th August, 2018

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 8 to 37, which comprise the condensed consolidated statement of financial position as of 30th June, 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30th August, 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30th June, 2018

	Notes	Six months ended 30.6.2018 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
Revenue	3	**557,398**	528,830
Cost of sales		**(439,980)**	(452,439)
Gross profit		**117,418**	76,391
Other income		**11,382**	16,350
Other gains and losses		**19,353**	10,615
Gain on disposal of a subsidiary	16	**–**	29,208
Distribution and selling expenses		**(17,121)**	(13,853)
Administrative expenses		**(157,563)**	(175,758)
Other expenses		**(1,124)**	(504)
Finance costs	4	**(665)**	(2,941)
Share of profit of an associate		**5,299**	4,886
Share of profit (loss) of a joint venture		**155**	(4)
Loss before tax		**(22,866)**	(55,610)
Income tax credit (expense)	5	**320**	(6,658)
Loss for the period	6	**(22,546)**	(62,268)
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(18,155)**	54,029
Release of exchange reserve upon disposal of a subsidiary		**–**	1,691
Item that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		**1,915**	–
		(16,240)	55,720
Total comprehensive expense for the period		**(38,786)**	(6,548)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30th June, 2018

	Notes	Six months ended 30.6.2018 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(24,426)**	(65,441)
Non-controlling interests		**1,880**	3,173
		(22,546)	(62,268)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(40,396)**	(10,095)
Non-controlling interests		**1,610**	3,547
		(38,786)	(6,548)
Loss per share	8		
— Basic		**(6.37) HK cents**	(17.06) HK cents

Condensed Consolidated Statement of Financial Position

At 30th June, 2018

	Notes	**30.6.2018** **HK$'000** **(unaudited)**	31.12.2017 HK$'000 (audited)
Non-current Assets			
Investment properties	9	**177,360**	154,190
Property, plant and equipment	10	**565,019**	620,327
Prepaid lease payments		**30,927**	31,998
Deposits paid for acquisition of property, plant and equipment		**2,126**	1,409
Intangible assets		**10,245**	11,203
Goodwill		**8,018**	8,260
Interest in an associate		**32,305**	33,304
Interest in a joint venture		**–**	–
Loan receivable		**–**	–
Other receivables		**761**	787
Deferred tax assets		**486**	206
		827,247	861,684
Current Assets			
Inventories		**154,496**	158,224
Debtors, deposits and prepayments	11	**306,038**	289,178
Loan receivable		**–**	–
Other receivables		**974**	1,007
Prepaid lease payments		**876**	849
Tax recoverable		**50**	112
Structured deposits		**–**	114,911
Short-term bank deposits		**126,149**	22,982
Bank balances and cash		**187,670**	210,464
		776,253	797,727
Current Liabilities			
Creditors and accrued charges	12	**405,963**	416,264
Contract liabilities		**9,882**	–
Refund liabilities		**4,644**	–
Bank borrowings	13	**33,257**	56,687
Tax liabilities		**11,795**	9,846
		465,541	482,797
Net Current Assets		**310,712**	314,930
Total Assets less Current Liabilities		**1,137,959**	1,176,614

Condensed Consolidated Statement of Financial Position

At 30th June, 2018

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital and Reserves		
Share capital	**38,365**	38,365
Reserves	**1,065,826**	1,106,222
Equity attributable to owners of the Company	**1,104,191**	1,144,587
Non-controlling interests	**27,086**	22,232
Total Equity	**1,131,277**	1,166,819
Non-current Liabilities		
Deferred tax liabilities	**6,682**	9,795
	1,137,959	1,176,614

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2018

	Attributable to owners of the Company									
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Special reserve** *HK$'000* *(Note a)*	**Other reserve** *HK$'000* *(Note b)*	**Exchange reserve** *HK$'000*	**Property revaluation reserve** *HK$'000*	**Retained profits** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1st January, 2017 (audited)	38,365	113,950	(3,269)	5,318	(4,965)	37,261	1,633,415	1,820,075	16,517	1,836,592
(Loss) profit for the period	–	–	–	–	–	–	(65,441)	(65,441)	3,173	(62,268)
Exchange differences arising on translation of foreign operations	–	–	–	–	53,655	–	–	53,655	374	54,029
Release of exchange reserve upon disposal of a subsidiary *(note 16)*	–	–	–	–	1,691	–	–	1,691	–	1,691
Total comprehensive income (expense) for the period	–	–	–	–	55,346	–	(65,441)	(10,095)	3,547	(6,548)
Dividend paid *(note 7)*	–	–	–	–	–	–	(95,912)	(95,912)	–	(95,912)
At 30th June, 2017 (unaudited)	38,365	113,950	(3,269)	5,318	50,381	37,261	1,472,062	1,714,068	20,064	1,734,132
At 1st January, 2018 (audited)	38,365	113,950	(3,269)	5,318	97,682	37,261	855,280	1,144,587	22,232	1,166,819
(Loss) profit for the period	–	–	–	–	–	–	(24,426)	(24,426)	1,880	(22,546)
Exchange differences arising on translation of foreign operations	–	–	–	–	(17,885)	–	–	(17,885)	(270)	(18,155)
Revaluation increase upon transfer from property, plant and equipment to investment properties *(note 10)*	–	–	–	–	–	1,915	–	1,915	–	1,915
Total comprehensive (expense) income for the period	–	–	–	–	(17,885)	1,915	(24,426)	(40,396)	1,610	(38,786)
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary	–	–	–	–	–	–	–	–	3,244	3,244
At 30th June, 2018 (unaudited)	38,365	113,950	(3,269)	5,318	79,797	39,176	830,854	1,104,191	27,086	1,131,277

Notes:

(a) Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

(b) Other reserve arose from the acquisition of additional interests in subsidiaries from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June, 2018

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(11,019)**	62,093
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(7,905)**	(135,970)
Deposits paid for acquisition of property, plant and equipment	**(1,413)**	(809)
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary	**3,244**	–
Net proceed from disposal of a subsidiary	**–**	51,717
Release of structured deposits	**114,911**	–
Proceeds from disposal of property, plant and equipment	**712**	127
Dividend received from an associate	**4,525**	1,056
Interest received	**3,134**	6,826
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**117,208**	(77,053)
FINANCING ACTIVITIES		
Dividend paid to owners of the Company	**–**	(95,912)
Interest paid	**(665)**	(2,941)
New bank borrowings raised	**–**	44,550
Repayments of bank borrowings	**(23,430)**	(119,150)
NET CASH USED IN FINANCING ACTIVITIES	**(24,095)**	(173,453)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**82,094**	(188,413)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**233,446**	629,089
Effect of foreign exchange rate changes	**(1,721)**	18,077
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by	**313,819**	458,753
Short-term bank deposits	**126,149**	314,368
Bank balances and cash	**187,670**	144,385
	313,819	458,753

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have 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") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and structured deposits, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1st January, 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1st January, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The contract liabilities represent deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the condensed consolidated statement of financial position under current liabilities.

For contracts that contain variable consideration (to specify), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

For a sale of products with a right of return (and for some services that are provided subject to a refund), the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);

(b) a refund liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

As a result of the changes in the Group's accounting policies, as explained above, HKFRS 15 was generally adopted without restating any comparative information. The adoption of HKFRS 15 in the current period does not result in any impact on the amounts reported in the condensed consolidated financial statements except that, the Group has adopted revised accounting policies on revenues with effect from 1st January, 2018.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31st December, 2017	Reclassification	Carrying amounts under HKFRS 15 at 1st January, 2018
		HK$'000	*HK$'000*	*HK$'000*
Current liabilities				
Creditors and accrued charges	(a)	12,597	(12,597)	–
Contract liabilities	(a)	–	8,294	8,294
Refund liabilities	(a)	–	4,303	4,303

Note:

(a) As at 1st January, 2018, receipt in advance from customers and provision for sales return previously included in creditors and accrued charges were reclassified to contract liabilities and refund liabilities respectively.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15 (continued)

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30th June, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	Note	As reported	Adjustments	Amounts without application of HKFRS 15
		HK$'000	*HK$'000*	*HK$'000*
Current liabilities				
Creditors and accrued charges	(a)	–	14,526	14,526
Contract liabilities	(a)	9,882	(9,882)	–
Refund liabilities	(a)	4,644	(4,644)	–

Note:

(a) As at 30th June, 2018, receipt in advance from customers and provision for sales return included in creditors and accrued charges were classified as contract liabilities and refund liabilities respectively.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset 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 are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through OCI ("FVTOCI") criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income" line item.

The directors of the Company (the "Directors") reviewed and assessed the Group's financial assets as at 1st January, 2018 based on the facts and circumstances that existed at that date. All financial assets and financial liabilities will continue to be measured as the same bases as are measured under HKAS 39.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, short-term bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1st January, 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No material impairment would need to be recognised at 1st January, 2018.

3. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment for the period under review:

For the six months ended 30th June, 2018

	Europe *HK$'000*	**United States** *HK$'000*	**Asia** *HK$'000*	**Other regions** *HK$'000*	**Consolidated** *HK$'000*
Revenue *(Note)*					
Original design manufacturing division	**220,962**	**165,605**	**42,253**	**1,965**	**430,785**
Distribution division	**74,749**	**10,698**	**23,820**	**17,346**	**126,613**
External sales	**295,711**	**176,303**	**66,073**	**19,311**	**557,398**
Result					
Segment profit (loss)	**5,663**	**(7,423)**	**(2,408)**	**2,035**	**(2,133)**
Unallocated income and gains					**22,748**
Unallocated corporate expenses and losses					**(51,404)**
Interest income on bank deposits					**3,134**
Finance costs					**(665)**
Share of profit of an associate					**5,299**
Share of profit of a joint venture					**155**
Loss before tax					**(22,866)**

Note: Revenue is recognised at "a point in time" when the customer obtains control of the goods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2018

3. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30th June, 2017

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	277,620	168,299	64,984	17,927	528,830
Result					
Segment loss	(5,118)	(8,212)	(5,507)	(37)	(18,874)
Unallocated income and gains					15,767
Unallocated corporate expenses and losses					(90,478)
Gain on disposal of a subsidiary					29,208
Interest income on bank deposits					6,826
Finance costs					(2,941)
Share of profit of an associate					4,886
Share of loss of a joint venture					(4)
Loss before tax					(55,610)

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, property rental income, net foreign exchange gains or losses, increase in fair value of investment properties, finance costs, gain on disposal of a subsidiary, interest income, share of profit of an associate, share of profit or loss of a joint venture and impairment losses of investment in a joint venture. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

4. FINANCE COSTS

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
Interests on bank borrowings	**665**	2,941

5. INCOME TAX (CREDIT) EXPENSE

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
— Current year	**885**	1,914
The People's Republic of China (the "PRC") Enterprise Income Tax		
— Current year	**36**	7,202
— Overprovision in respect of prior year	**(3)**	(497)
	33	6,705
United Kingdom Corporation Tax		
— Current year	**1,053**	925
France Corporation Tax		
— Current year	**984**	472
South Africa Corporation Tax		
— Current year	**146**	–
Deferred taxation		
— Current year	**(3,421)**	(3,358)
	(320)	6,658

5. INCOME TAX (CREDIT) EXPENSE (continued)

One of the subsidiaries of the Group is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK$2 million of assessable profits and 16.5% for the assessable profits above HK$2 million for the current period. Other subsidiaries of the Company and the Group are subject to Hong Kong Profits Tax at the rate of 16.5% for the six months ended 30th June, 2018. The tax rate of subsidiaries is 16.5% for the six months ended 30th June, 2017.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% in accordance with the relevant law and regulations in the United Kingdom for both periods.

France Corporation Tax is calculated at the applicable rate of 28% for amounts of taxable profit up to Euro ("€") 500,000 and a corporate tax rate of 33.33% for taxable profit above €500,000 in accordance with the relevant law and regulations in France for the six months ended 30th June, 2018. The France Corporation Tax is calculated at the applicable of 33.33% for all taxable profit for the six months ended 30th June, 2017.

South Africa Corporation Tax is calculated at the applicable rate of 28% in accordance with the relevant law and regulations in South Africa for both periods.

In relation to 50:50 apportionment basis, a portion of the Group's profits is deemed under Hong Kong Profits Tax neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both periods.

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
Loss for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**1,029**	933
Allowance for doubtful debts, net (included in other gains and losses)	**294**	3,003
Cost of inventories recognised as an expense	**439,980**	452,439
Depreciation of property, plant and equipment	**50,534**	96,419
Decrease in fair values of derivative financial instruments	**–**	216
Gain on disposal of property, plant and equipment	**(631)**	(101)
Increase in fair values of investment properties	**(20,000)**	(6,610)
Net foreign exchange losses (gains) (included in other gains and losses)	**679**	(7,189)
Release of prepaid lease payments	**432**	722
Gross rental income from investment properties (included in other income)	**(2,117)**	(1,559)
Less: Direct expenses of investment properties that generated rental income during the period	**417**	440
	(1,700)	(1,119)

7. DIVIDENDS

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
Second special dividend paid of 25.0 HK cents per share in respect of 2016	**–**	95,912

The board of directors of the Company (the "Board") has resolved not to declare any interim dividend, but has resolved to declare a special dividend of 5.0 HK cents per share (with a scrip dividend option) for the six months ended 30th June, 2018 on 30th August, 2018.

During the six months ended 30th June, 2018, the Board did not recommend the payment of a final dividend for the year ended 31st December, 2017. During the six months ended 30th June, 2017, the Board did not recommend the payment of a final dividend but resolved to recommend a second special dividend of 25.0 HK cents per share, amounting to HK$95,912,000, for the year ended 31st December, 2016.

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share – Loss for the period attributable to owners of the Company	**(24,426)**	(65,441)
	Number of shares	
Number of shares for the purpose of basic loss per share	**383,650,000**	383,650,000

No diluted loss per share has been presented as there was no potential ordinary shares in issue for both periods.

9. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2017	141,480
Increase in fair value recognised in profit or loss	12,710
At 31st December, 2017	154,190
Reclassification from property, plant and equipment *(note 10)*	3,170
Increase in fair value recognised in profit or loss	20,000
At 30th June, 2018	177,360

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

In determining the fair value of investment properties, it is the Group's policy to engage an independent firm of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and key inputs to the model.

On 30th June, 2018 and 31st December, 2017, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

The valuations have been arrived at using income capitalisation approach. The valuations have been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the reversion yield and monthly market rent and contracted monthly rent of similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. There has been no change from the valuation technique used in the prior period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2018, the Group acquired property, plant and equipment of approximately HK$8,601,000 (six months ended 30th June, 2017: HK$136,946,000).

During the six months ended 30th June, 2018, the Group changed the usage of two properties from owner occupation to investment properties. Accordingly, the relevant portion of the properties with a net carrying value of HK$1,255,000 was transferred from property, plant and equipment to investment properties at their fair values on the date of transfer of HK$3,170,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the dates of transfer. The difference between the fair values of these properties and their carrying values at the date of transfer amounting to HK$1,915,000 has been credited to property revaluation reserve.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing a credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors and bills receivable of HK$287,141,000 and HK$2,242,000 respectively (31st December, 2017: HK$275,108,000 and HK$779,000 respectively). The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
0 – 90 days	**224,953**	192,963
91 – 180 days	**59,347**	76,327
More than 180 days	**2,841**	5,818
	287,141	275,108

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
0 – 90 days	**2,242**	779

11. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Trade receivable due from the associate, joint venture and non-controlling shareholder of a subsidiary

Included in the Group's trade debtors is an amount due from the Group's associate of HK$15,548,000 net of allowance for doubtful debts of HK$145,000 (31st December, 2017: HK$23,708,000 net of allowance for doubtful debts of nil), an amount due from the Group's joint venture of HK$90,000 (31st December, 2017: HK$126,000) and an amount due from the non-controlling shareholder of a subsidiary of the Group of HK$2,694,000 (31st December, 2017: HK$148,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured and not past due at the end of the reporting period. No impairment has been recognised in the period for doubtful debts in respect of the amounts outstanding from the joint venture and non-controlling shareholder of a subsidiary.

12. CREDITORS AND ACCRUED CHARGES

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
Trade creditors	**109,703**	98,840
Other creditors and accrued charges	**296,260**	317,424
	405,963	416,264

The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
0 – 60 days	**92,606**	81,849
61 – 120 days	**14,829**	13,793
More than 120 days	**2,268**	3,198
	109,703	98,840

Trade payable due to the associate

Included in the Group's trade creditors is an amount due to the Group's associate of HK$290,000 (31st December, 2017: HK$503,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

13. BANK BORROWINGS

	30.6.2018 **HK$'000**	31.12.2017 *HK$'000*
Secured bank borrowings	**33,257**	56,687
Carrying amount of the bank borrowings repayable based on repayment schedules:		
— within one year	**5,265**	26,054
— more than one year, but not exceeding two years	**5,421**	5,365
— more than two years, but not exceeding five years	**17,250**	17,003
— more than five years	**5,321**	8,265
	33,257	56,687
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(33,257)**	(56,687)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$25,042,000 (31st December, 2017: HK$27,014,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$177,360,000 (31st December, 2017: HK$155,455,000).

A bank borrowing of HK$8,215,000 (31st December, 2017: HK$8,840,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$31,013,000 (31st December, 2017: HK$31,585,000) and carries interest at one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.8%.

At 31st December, 2017, a bank borrowing of HK$20,833,000 was secured by the Group's leasehold land and buildings with carrying amount of HK$35,887,000 (including leasehold land and buildings with carrying amount of HK$31,585,000 as mentioned above) and carried interest at one-month HIBOR plus 2.9%.

14. CAPITAL COMMITMENTS

	30.6.2018 HK$'000	31.12.2017 HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— buildings under construction	–	1,194
— leasehold improvements	467	1,726
— plant and machinery	3,463	1,007
— furniture, fixtures and office equipment	19	–
— set up cost of investment in a subsidiary	–	4,728
	3,949	8,655

15. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	An associate Six months ended		A joint venture Six months ended		A non-controlling shareholder of a subsidiary Six months ended	
	30.6.2018 HK$'000	30.6.2017 HK$'000	30.6.2018 HK$'000	30.6.2017 HK$'000	30.6.2018 HK$'000	30.6.2017 HK$'000
Trade sales	22,348	21,272	24	132	3,055	–
Trade purchases	336	2,505	–	–	–	–

Sales of goods to the associate, joint venture and non-controlling shareholder of a subsidiary were made at the Group's usual list prices.

Other than the above, the details of trade receivable from and trade payable to the associate, joint venture and non-controlling shareholder of a subsidiary are shown in notes 11 and 12 respectively. No guarantees have been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

15. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	*HK$'000*
Short-term benefits	**5,217**	5,377
Post-employment benefits	**269**	269
Termination benefits	**–**	896
	5,486	6,542

The remuneration of executive directors and key executives was determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was recommended by the Board of Directors and approved by the shareholders of the Company at the annual general meeting.

16. DISPOSAL OF A SUBSIDIARY

On 1st June, 2017, **宏懋金屬製品（深圳）有限公司** (known as "Hongmao Metal Products (Shenzhen) Company Limited") ("Hongmao"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with an independent third party (the "Purchaser"). Pursuant to the Equity Transfer Agreement, Hongmao agreed to sell and the Purchaser agreed to purchase the entire equity interest in **惠州市藝駿房地產開發有限公司** (known as "Huizhou Yijun Real Estate Development Company Limited") ("Yijun"), a wholly-owned subsidiary of Hongmao, at a consideration of RMB45,000,000 (equivalent to approximately HK$51,838,000). The consideration was determined after arm's length negotiation between Hongmao and the Purchaser and the transaction was completed on 28th June, 2017.

Yijun is principally engaged in property holding. The principal asset owned by Yijun is two parcels of land located at Dong Feng Village, Xinxu Town, Huizhou City, Guangdong Province, the PRC with a total site area of approximately 24,893.90 square metres.

Consideration received:

	HK$'000
Cash consideration	51,838

16. DISPOSAL OF A SUBSIDIARY (continued)

Analysis of net assets and liability at the date of disposal:

	HK$'000
Other debtor	3,602
Prepaid lease payments	16,646
Bank balance and cash	121
Building	414
Deposit paid for acquisition of property	194
Accrued charge	(38)
Net assets disposed of	20,939

Gain on disposal of a subsidiary:

	HK$'000
Consideration	51,838
Net assets disposed of	(20,939)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss upon disposal of a subsidiary	(1,691)
Gain on disposal	29,208

Net cash inflow on disposal of a subsidiary:

	HK$'000
Cash consideration received	51,838
Less: Bank balance and cash disposed of	(121)
	51,717

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in these financial statements, which have no material effect on previously reported profit and equity, to conform with the current period's presentation.

DIVIDENDS

The board of directors of the Company (the "Board") has resolved not to declare any interim dividend (2017: nil), but has resolved to declare a special dividend of 5.0 HK cents (2017: 2.0 HK cents) per share for the six months ended 30th June, 2018. The special dividend will be payable on or around 31st October, 2018 to shareholders whose names appear on the register of members of the Company on 17th September, 2018. The special dividend will be payable in cash, with an option granted to shareholders to receive new and fully paid ordinary shares in lieu of cash or partly in cash and partly in shares under a scrip dividend scheme (the "Scrip Dividend Scheme"). The circular containing details of the Scrip Dividend Scheme and election forms are expected to be sent to shareholders during first week in October 2018.

Payment of the special scrip dividend is conditional upon The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of, and permission to deal in, the new shares to be issued as the Scrip Dividend. The scrip dividend and the share certificates to be issued under the Scrip Dividend Scheme are expected to be distributed and sent to shareholders on or around 31st October, 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 14th September, 2018 to 17th September, 2018, both days inclusive, during which period no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 13th September, 2018 in order to qualify for the special dividend mentioned above.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the six months ended 30th June, 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2018.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Shares in the Company (Long Positions)

Name of Director	Number of issued ordinary shares held				Approximate percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests	Total	
Ng Hoi Ying, Michael	2,856,000	5,656,000	151,000,000 *(Note)*	159,512,000	41.58%
Ng Kim Ying	23,126,347	5,000,000	–	28,126,347	7.33%

Note: These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

Save as disclosed above, as at 30th June, 2018, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th June, 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	151,000,000	*(Note a)*	39.36%
Maritime Overseas Assets Limited	Held by controlled corporation	151,000,000	*(Note a)*	39.36%
Ratagan International Company Limited	Beneficial owner	151,000,000	*(Note a)*	39.36%
FMR LLC	Held by controlled corporation	32,048,360	*(Note b)*	8.35%
Fidelity Puritan Trust	Beneficial owner	24,645,000	*(Note c)*	6.42%
David Michael Webb	Beneficial owner	6,889,000		1.80%
	Held by controlled corporation	23,877,000	*(Note d)*	6.22%
Preferable Situation Assets Limited	Beneficial owner	23,877,000	*(Note d)*	6.22%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 151,000,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL.

(b) According to a corporate substantial shareholder notice filed by FMR LLC on 3rd March, 2017 (with the date of the relevant event as set out in the corporate substantial shareholder notice being 27th February, 2017), FMR LLC held 32,048,360 shares of the Company indirectly through FMR Co., Inc.. FMR Co., Inc. is wholly-owned by Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 32,048,360 shares of the Company held by FMR Co., Inc., 3,119,000 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 4,284,360 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 64% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.

(c) According to a corporate substantial shareholder notice filed by Fidelity Puritan Trust on 3rd March, 2017, as at 27th February, 2017 (i.e. the date of the relevant event as set out in the corporate substantial shareholder notice filed on 3rd March, 2017), 24,645,000 shares of the Company were held directly by Fidelity Puritan Trust.

(d) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 23,877,000 shares of the Company held by PSAL under Part XV of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30th June, 2018, except for deviation from code provision A.2.1 of the CG Code. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. The Board intends to maintain this structure in future as it believes that this ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive directors. The duties of the Audit Committee include (but are not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Group's interim report comprising its unaudited condensed consolidated financial statements for the six months ended 30th June, 2018 has been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive directors. The major roles and functions of the Remuneration Committee include the determination of remuneration of executive directors and senior management and review of the remuneration policy of the Group.

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors, making recommendations to the Board on the appointment or re-appointment of directors and determining the policy, nomination procedures and process and criteria for the nomination of directors.