

ASCENT

INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0264



2018

INTERIM REPORT

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Wang Wei (*Chairlady and appointed on 8 August 2018*)

Li Wei (*Resigned on 7 September 2018*)

Xu Hong Wei
(*Appointed on 6 July 2018 and resigned on 25 July 2018*)

Huang Shiqiao
(*Appointed on 6 July 2018 and resigned on 25 July 2018*)

Non-executive Director

Lui Kwok Wai
(*Resigned on 16 March 2018*)

Independent Non-executive Directors

Wong Kwun Ho
(*Appointed on 13 August 2018*)

Liang Jianhai
(*Appointed on 13 August 2018*)

Chong Man Hung Jeffrey (*Appointed on 7 September 2018*)

Shen Xiao (*Resigned on 25 July 2018*)

Yau Pak Yue
(*Resigned on 13 August 2018*)

Cheng Shing Hay
(*Resigned on 7 September 2018*)

Wong Kon Man Jason
(*Resigned on 7 September 2018*)

COMPANY SECRETARY

Chan Tsang Mo
(*Appointed on 28 February 2018*)

Chu Kin Ming
(*Resigned on 28 February 2018*)

AUDIT COMMITTEE

Chong Man Hung Jeffrey
(*Committee Chairman and appointed on 7 September 2018*)

Wong Kwun Ho
(*Appointed on 13 August 2018*)

Liang Jianhai
(*Appointed on 13 August 2018*)

Yau Pak Yue
(*Resigned on 13 August 2018*)

Shen Xiao (*Resigned on 25 July 2018*)

Cheng Shing Hay
(*Resigned on 7 September 2018*)

Wong Kon Man Jason
(*Resigned on 7 September 2018*)

NOMINATION COMMITTEE

Wang Wei
(*Committee Chairlady and appointed on 8 August 2018*)

Wong Kwun Ho
(*Appointed on 13 August 2018*)

Liang Jianhai
(*Appointed on 13 August 2018*)

Chong Man Hung Jeffrey (*Appointed on 7 September 2018*)

Yau Pak Yue
(*Resigned on 13 August 2018*)

Shen Xiao
(*Resigned on 25 July 2018*)

Cheng Shing Hay
(*Resigned on 7 September 2018*)

Li Wei (*Resigned on 7 September 2018*)

Wong Kon Man Jason
(*Resigned on 7 September 2018*)

REMUNERATION COMMITTEE

Wong Kwun Ho

*(Committee Chairman,
appointed on 13 August 2018)*

Wang Wei

(Appointed on 8 August 2018)

Chong Man Hung Jeffrey *(Appointed on
7 September 2018)*

Liang Jianhai

(Appointed on 13 August 2018)

Yau Pak Yue

(Resigned on 13 August 2018)

Shen Xiao *(Resigned on 25 July 2018)*

Li Wei

(Resigned on 7 September 2018)

Cheng Shing Hay

(Resigned on 7 September 2018)

Wong Kon Man Jason

(Resigned on 7 September 2018)

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

**HEAD OFFICE AND PRINCIPAL PLACE
OF BUSINESS IN HONG KONG**

Suite 510, Chater House,

8 Connaught Road Central

Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd. Hong
Kong Branch

Nanyang Commercial Bank Limited

OCBC Wing Hang Bank Limited

Bank of China (Hong Kong) Limited

Standard Chartered Bank (Hong Kong)
Limited

China Merchants Bank Hong Kong Branch

AUDITOR

BDO Limited

Certified Public Accountants

**LEGAL ADVISER ON THE CAYMAN
ISLANDS LAW**

Conyers Dill & Pearman

LEGAL ADVISER ON HONG KONG LAW

Herbert Smith Freehills

**CAYMAN ISLANDS PRINCIPAL SHARE
REGISTRAR AND TRANSFER OFFICE**

SMP Partners (Cayman) Limited

3rd Floor, Royal Bank House

24 Shedden Road, George Town

Grand Cayman KY1-1110

Cayman Islands

**HONG KONG BRANCH SHARE AND
REGISTRAR AND TRANSFER OFFICE**

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Level 22,

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COMPANY WEBSITE

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STOCK CODE

264

FINANCIAL HIGHLIGHTS

For the six months ended

	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000 (Restated) <i>(note)</i>
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Operating results of continuing operations

Revenue	34,626	38,887
Gross profit	17,674	17,450
Loss before income tax expense	8,869	8,277
Loss from continuing operations	8,869	8,282

Business performance ratios

Gross profit margin	51.0%	44.9%
Current ratio	2.13	2.05
Quick ratio	1.27	1.12

Share data

Shares in issue ('000)	382,704	347,904
Shares closing price (as at period end date)	HK\$1.48	HK\$0.94
Market capitalisation (HK\$'000)	566,402	327,030
Loss per share	(HK2.32 cents)	(HK3.05 cents)
Net asset value per share	HK\$0.14	HK\$0.12

Note:

The Group had ceased the provision of property management services and completed the disposal of this business in September 2017. The comparative amounts of the financial information of this operating segment in respect of the six months ended 30 June 2017 were restated to be presented as discontinued operation accordingly.

The Board of Directors (the “Directors”) of Ascent International Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	<i>Notes</i>	Six months ended	
		30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000 (Restated, see Note 4)
Revenue	4	34,626	38,887
Cost of sales		(16,952)	(21,437)
Gross profit		17,674	17,450
Other income and gains		239	225
Selling and distribution costs		(7,983)	(11,717)
Administrative and other operating expenses		(17,109)	(14,235)
Finance cost		(40)	–
Share of loss of a joint venture		(1,650)	–
Loss before income tax expense	5	(8,869)	(8,277)
Income tax expense	6	–	(5)
Loss from continuing operations		(8,869)	(8,282)
Loss from discontinued operation	14	–	(2,339)
Loss for the period attributable to owners of the Company		(8,869)	(10,621)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended	
		30 June 2018	30 June 2017
		Unaudited HK\$'000	Unaudited HK\$'000 (Restated, see Note 4)
Notes			
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
	– Exchange differences arising on translation of financial statements of operations outside Hong Kong	(393)	859
	– Other comprehensive income arising from discontinued operation	–	(130)
14			
Other comprehensive income for the period		(393)	729
Total comprehensive income for the period attributable to owners of the Company		(9,262)	(9,892)
Loss per share from continuing operations attributable to owners of the Company			
	– Basic and diluted	8	(HK2.32 cents) (HK2.38 cents)
Loss per share attributable to owners of the Company			
	– Basic and diluted	8	(HK2.32 cents) (HK3.05 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	<i>Notes</i>	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Non-current assets			
Interest in a joint venture	9	18,350	–
Property, plant and equipment		547	662
Deposits paid		791	1,226
		19,688	1,888
Current assets			
Inventories		24,594	28,275
Trade and bills receivables	10	8,829	8,402
Other receivables, deposits and prepayments		4,552	4,275
Amounts due from fellow subsidiaries		–	8
Tax recoverable		234	284
Bank balances and cash		23,166	44,507
		61,375	85,751
Current liabilities			
Trade payables	11	2,375	3,754
Other payables and accrued charges		8,160	9,563
Amount due to a joint venture	9	5,060	–
Amounts due to former fellow subsidiaries		7,571	–
Amount due to a former intermediate holding company		5,590	–
Amounts due to fellow subsidiaries		–	7,206
Amount due to an intermediate holding company		–	5,590
Taxation payable		43	–
		28,799	26,113
Net current assets		32,576	59,638

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AS AT 30 JUNE 2018

<i>Notes</i>	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Total assets less current liabilities/net assets	52,264	61,526
Capital and reserves attributable to owners of the Company		
Share capital	12 3,827	3,827
Reserves	48,437	57,699
Total equity	52,264	61,526

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Share capital Unaudited <i>HK\$'000</i>	Share premium Unaudited <i>HK\$'000</i>	Foreign exchange reserve Unaudited <i>HK\$'000</i>	Statutory and discretionary reserve Unaudited <i>HK\$'000</i>	Accumulated losses Unaudited <i>HK\$'000</i>	Total Unaudited <i>HK\$'000</i>
At 1 January 2017	3,479	53,808	2,982	5,249	(14,859)	50,659
Total comprehensive income for the period	-	-	729	-	(10,621)	(9,892)
At 30 June 2017	3,479	53,808	3,711	5,249	(25,480)	40,767
At 1 January 2018	3,827	77,760	3,774	5,249	(29,084)	61,526
Total comprehensive income for the period	-	-	(393)	-	(8,869)	(9,262)
At 30 June 2018	3,827	77,760	3,381	5,249	(37,953)	52,264

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended	
	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000
Net cash (used in)/from operating activities	(1,602)	1,433
Net cash (used in)/from investing activities*	(19,984)	34
Net cash from financing activities	365	3,383
Net (decrease)/increase in cash and cash equivalents	(21,221)	4,850
Cash and cash equivalents at the beginning of the period	44,507	21,475
Effect of foreign exchange rate changes on cash and cash equivalents	(120)	311
Cash and cash equivalents at the end of the period	23,166	26,636

* Including investment in a joint venture of HK\$20,000,000 during the six months ended 30 June 2018.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). As disclosed in the Company’s joint announcement dated 18 May 2018, Zhurong Global Limited, a former ultimate holding Company of the Company, has transferred approximately 60.09% of the share capital of the Company to Twinkle Link Limited (“Twinkle Link”), a company incorporated in the British Virgin Islands (the “BVI”) on 11 May 2018. As at 30 June 2018, the directors of the Company consider the Company’s immediate and ultimate holding company is Twinkle Link. As at the date of these condensed interim financial statements, Twinkle Link holds approximately 90.87% of the total issued shared capital of the Company upon completion of the mandatory unconditional cash offer to acquire all the issued shares of the Company as detailed in the Company’s joint announcement dated 25 July 2018. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the interim report.

The unaudited condensed interim financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out below.

CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards (“HKFRSs”) and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impacts resulting from adoption of HKFRS 9 and HKFRS 15 together with the details of the changes in accounting policies are discussed in note 3(b) and note 3(c) respectively.

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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaced the standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes in the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

(i) *Classification and measurement*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). This superseded HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The Group has assessed that all its financial assets are classified as financial assets measured at amortised cost which were previously classified as loan and receivables with no change in their measurement upon the adoption of HKFRS 9. The Group has no other category of financial assets recognised in the financial statements.

(ii) *Credit losses*

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model (“ECLs”). Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group has applied ECLs on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables). There was no material impact on the loss allowance determined in accordance with HKFRS 9 and accordingly, no opening adjustment was made as at 1 January 2018.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15, Revenue from contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 superseded the revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- 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
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics and also significantly enhances the qualitative and quantitative disclosures related to revenue. The application of HKFRS 15 has resulted in more disclosures. However, there was no material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2018.

The following new HKFRS, potentially relevant to the Group’s financial statements, has been issued, but not yet effective and has not been early adopted by the Group.

HKFRS 16 – Leases

Currently the Group classifies leases into operating leases, and account for the lease arrangements, according to the nature of the lease. The Group enters into leases as the lessee.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 – Leases (Continued)

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for property, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognised in the statement of comprehensive income over the period of the lease. As at 30 June 2018, the Group’s future minimum lease payments under non-cancellable operating leases amounted to HK\$13,018,000, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group does not expect to adopt HKFRS 16 before its effective date of 1 January 2019.

4. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are manufacturing and distribution of leather products, retail of fashion apparel, footwear and leather accessories.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- | | | |
|------------------------|---|---|
| Manufacturing business | – | Manufacturing and distribution of leather products |
| Retail business | – | Retail of fashion apparel, footwear and leather accessories |

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' result that is used by the chief operating decision makers for assessment of segment performance.

Restatement due to discontinued operation

The Group had ceased the property management services and completed the disposal of this business on 4 September 2017. The comparative amounts of the segment information in respect of the six months ended 30 June 2017 as shown below were restated in order to separately present this operating segment as discontinued operation as showed in note 14 accordingly.

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Manufacturing business Six months ended		Retail business Six months ended		Total Six months ended	
	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited (Restated) HK\$'000
Revenue from external customers	21,635	24,740	12,991	14,147	34,626	38,887
Inter-segment revenue	2,212	2,519	-	-	2,212	2,519
Reportable segment revenue (Note (iii))	23,847	27,259	12,991	14,147	36,838	41,406
Reportable segment loss	(961)	(2,695)	(19)	(875)	(980)	(3,570)
Elimination of inter-segment losses					473	98
Interest income					33	28
Share of loss of a joint venture					(1,650)	-
Unallocated corporate expenses (Note (i))					(6,745)	(4,833)
Loss before income tax expense					(8,869)	(8,277)
Income tax expense					-	(5)
Loss from continuing operations for the period					(8,869)	(8,282)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Manufacturing business		Retail business		Total	
	As at		As at		As at	
	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Reportable segment assets	48,497	51,262	9,880	12,897	58,377	64,159
Interest in a joint venture					18,350	-
Tax recoverable					234	284
Unallocated bank balances and cash					3,578	22,607
Other unallocated corporate assets					524	589
					81,063	87,639
Reportable segment liabilities	9,327	11,067	679	912	10,006	11,979
Amounts due to former fellow subsidiaries					7,571	-
Amount due to a former intermediate holding company					5,590	-
Amount due to a joint venture					5,060	-
Amounts due to fellow subsidiaries					-	7,206
Amount due to an intermediate holding company					-	5,590
Unallocated corporate liabilities (Note (ii))					572	1,338
					28,799	26,113

Notes:

- (i) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, employee costs, foreign exchange loss and other head office expenses.
- (ii) The amount represented unallocated deposits received and accrued head office professional fees and staff costs.
- (iii) Revenue from manufacturing business and retail business is recognised at a point in time when the control of the products has been passed to customers.

5. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended	
	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000 (Restated)
Cost of inventories recognised as expenses	16,952	21,437
Depreciation of property, plant and equipment	133	218
Foreign exchange loss, net	60	–
Operating lease rentals in respect of land and buildings	6,428	8,012
Staff costs (excluding directors' emoluments)	14,026	16,321
Impairment loss on trade receivables, net	219	–
and crediting:		
Interest income	33	28
Foreign exchange gain, net	–	37
Reversal of write-down of inventories, net (included in cost of sales)	149	–

6. INCOME TAX EXPENSE

	Six months ended	
	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000
Current taxation:		
– PRC enterprise income tax	–	5

No provision for Hong Kong profits tax has been made as the Group has sustained estimated tax losses for both periods. The PRC enterprise income tax rate for the Company's subsidiaries in the PRC is 25% (six months ended 30 June 2017: 25%).

In February 2018, the Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain subsidiaries of the Company. As any claims in respect of the year of assessment 2011/12 would be statutorily time-barred after 31 March 2018, the IRD has issued assessment/additional assessments amounting to HK\$648,000 to these subsidiaries to keep the year of assessment 2011/12 open for review. Management have sought for assistance from tax specialists in handling the tax audit. Objection against these assessment/additional assessment has been duly lodged by the subsidiaries. Since the tax audit is still pending for fact-finding with different views to be exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable certainty. Nevertheless, management have performed assessment and based on the facts and circumstances, they consider the aforementioned subsidiaries have properly complied with the applicable Inland Revenue Ordinance provisions in preparation of their Hong Kong profits tax computations for previous years. Therefore, for the purpose of the current period's Hong Kong profits tax computation of these subsidiaries, management have followed the same basis as adopted in the prior years and consider no additional provision of Hong Kong profits tax is required to be made in the interim financial statements for the six months ended 30 June 2018 in respect of the current and prior periods.

7. DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 and 30 June 2017.

8. LOSS PER SHARE

The calculations of basic loss per share and basic loss per share from continuing operations are based on the Group's loss for the period of HK\$8,869,000 (six months ended 30 June 2017: HK\$10,621,000) and loss from continuing operations for the period of HK\$8,869,000 (six months ended 30 June 2017: HK\$8,282,000) attributable to owners of the Company respectively and the weighted average number of 382,704,000 (six months ended 30 June 2017: 347,904,000) ordinary shares in issue during the period.

For the six months ended 30 June 2018 and 30 June 2017, diluted loss per share is equal to the basic loss per share for the respective periods as there is no potential dilutive ordinary share in issue for the six months ended 30 June 2018 and 30 June 2017.

9. INTEREST IN A JOINT VENTURE

	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Share of net assets	18,235	–
Goodwill	115	–
	18,350	–

9. INTEREST IN A JOINT VENTURE (CONTINUED)

During the period, the Group entered into a joint venture agreement with Jubilee Ventures International Limited (“Jubilee”) and an independent third party, pursuant to which the Group has subscribed for 30% of the enlarged issued share capital of Eastation Gallery (HK) Limited (“JV Company”) at a subscription price of HK\$20,000,000. The JV Company is principally engaged in consultation and trading of artworks and the operating of an art gallery in Hong Kong.

As at the end of reporting period, the amount due to the JV Company of HK\$5,060,000 is unsecured, interest bearing at 6% per annum and matures on 25 July 2018 and 13 September 2018. The amount is fully settled after the end of reporting period.

Subsequent to the end of the reporting period, the Group has agreed to dispose of its entire equity interest in the JV Company as disclosed in note 16.

10. TRADE AND BILLS RECEIVABLES

	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Trade and bills receivables	9,809	9,163
Less: impairment loss	(980)	(761)
	8,829	8,402

10. TRADE AND BILLS RECEIVABLES (CONTINUED)

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables (net of impairment loss) at the end of reporting period is as follows:

	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Less than 30 days	2,768	2,588
31-60 days	5,270	3,670
61-90 days	459	609
91-120 days	93	799
121-365 days	120	529
More than 365 days	119	207
	8,829	8,402

11. TRADE PAYABLES

Details of the ageing analysis are as follows:

	30 June 2018 Unaudited HK\$'000	31 December 2017 Audited HK\$'000
Less than 30 days	1,732	2,706
31-60 days	17	499
61-90 days	109	71
91-120 days	80	49
121-365 days	161	122
More than 365 days	276	307
	2,375	3,754

12. SHARE CAPITAL

Authorised and issued share capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2017	347,904,000	3,479
Shares issued under a subscription agreement (<i>Note</i>)	34,800,000	348
At 31 December 2017, 1 January 2018 and 30 June 2018	382,704,000	3,827

Note:

On 23 November 2017, 34,800,000 new ordinary shares of HK\$0.01 each were issued at HK\$0.705 per share pursuant to a subscription agreement dated 8 November 2017. This resulted in a net proceeds of HK\$24,300,000, of which HK\$348,000 and HK\$23,952,000 (net of issue expenses of HK\$234,000) were credited to share capital and the share premium account respectively.

13. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2018 and 31 December 2017.

14. DISCONTINUED OPERATION

On 4 September 2017, the Company completed the disposal of its 100% equity interest in a wholly-owned subsidiary, Leisure State Limited, and its subsidiaries (collectively “Leisure Group”), which engaged in the provision of property management service in PRC. Following the decision and completion of disposal of Leisure Group, this business is re-classified as a discontinued operation. The presentation of comparative information in respect of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2017 has been restated in order to present the discontinued operation separately from continuing operations.

- (i) The financial performance for the six months ended 30 June 2017 is presented as follows:

	Six months ended 30 June 2017
	Unaudited HK\$'000
Revenue (Note)	9,435
Other income	10
Expenses	(11,784)
	<hr/>
Loss before income tax of discontinued operation	(2,339)
Income tax expense	–
	<hr/>
Loss from discontinued operation	(2,339)
Other comprehensive income arising from discontinued operation	(130)
	<hr/>
Total comprehensive income from discontinued operation	(2,469)
	<hr/> <hr/>

Note: It represented property management fee income from fellow subsidiaries.

14. DISCONTINUED OPERATION (CONTINUED)**(ii) Loss per share from discontinued operation**

	Six months ended	
	30 June 2018 Unaudited HK\$	30 June 2017 Unaudited HK\$
Basic and diluted, from the discontinued operation	N/A	(0.67 cents)

The calculations of the basis and diluted loss per share from discontinued operation were based on the loss for the six months ended 30 June 2017 of HK\$2,339,000 and the weighted average number of 347,904,000 ordinary shares in issue during that period.

15. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had entered into the following transactions with related parties:

	Six months ended	
	30 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises (<i>Note</i>)	390	390
Interest expense paid to a joint venture	40	–

Note: Mr. Chan Woon Man is a director of a subsidiary of the Company. Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

15. RELATED PARTY TRANSACTIONS (CONTINUED)**(b) 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 June 2018 Unaudited HK\$'000	30 June 2017 Unaudited HK\$'000
Short-term benefits	1,042	1,083
Post employment benefits	9	42
	1,051	1,125

16. EVENT AFTER THE END OF REPORTING PERIOD

On 17 August 2018, the Group entered into the sale and purchase agreement with Jubilee, pursuant to which Jubilee has agreed to acquire and the Group has agreed to sell the 30% of the issued share capital of the JV Company as mentioned in note 9 at a cash consideration of HK\$18,000,000. At the date of this report, the disposal has been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

For the six months ended 30 June 2018, the Group's revenue decreased by approximately 11.0% from approximately HK\$38,887,000 for the six months ended 30 June 2017 to approximately HK\$34,626,000. Gross profit increased slightly by approximately 1.3% from approximately HK\$17,450,000 for the six months ended 30 June 2017 to approximately HK\$17,674,000. Gross profit margin also increased from approximately 44.9% for the six months ended 30 June 2017 to approximately 51.0% for the six months ended 30 June 2018. The reason of the increase in gross profit is mainly due to the continuous consumption of existing inventory by the Group instead of purchasing new inventory.

Other income and gains increased slightly by 6.2% from approximately HK\$225,000 for the six months ended 30 June 2017 to approximately HK\$239,000 for the six months ended 30 June 2018.

Selling and distribution costs decreased by approximately 31.9% from approximately HK\$11,717,000 for the six months ended 30 June 2017 to approximately HK\$7,983,000 for the six months ended 30 June 2018, which was mainly due to the closing of three retail stores in Hong Kong which resulted in lower staff and rental costs. Administrative and other operating expenses increased by approximately 20.2% from approximately HK\$14,235,000 for the six months ended 30 June 2017 to approximately HK\$17,109,000 for the six months ended 30 June 2018 which was mainly attributable to the higher overhead costs and legal and professional costs in association with the corporate exercises and general offer during the reporting period.

The Group ceased the property management services and completed the disposal of this business in September 2017. The operating results of this business were presented as discontinued operation which amounted to approximately HK\$2,339,000 for the six months period ended 30 June 2017.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$8,869,000 for the reporting period (six months ended 30 June 2017: approximately HK\$10,621,000). Loss per share for the six months ended 30 June 2018 was HK2.32 cents (six months ended 30 June 2017: HK3.05 cents).

BUSINESS REVIEW

In the reporting period, the two business segments – manufacturing and retailing accounted for approximately 62.5% (six months ended 30 June 2017: approximately 63.6%) and approximately 37.5% for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately 36.4%) of the revenue of the Group.

MANUFACTURING BUSINESS

For the six months ended 30 June 2018, revenue of manufacturing business segment from external customers reduced by 12.6% from approximately HK\$24,740,000 for the six months ended 30 June 2017 to approximately HK\$21,635,000. This was mainly due to the decrease in demand from Hong Kong, PRC and overseas markets.

Geographically, sales to Europe increased by approximately 16.2% from approximately HK\$6,437,000 for the six months ended 30 June 2017 to approximately HK\$7,482,000 for the six months ended 30 June 2018. Sales to the US decreased by approximately 5.5% from approximately HK\$6,741,000 for the six months ended 30 June 2017 to approximately HK\$6,369,000 for the six months ended 30 June 2018. Sales in Hong Kong decreased by approximately 8.1% from approximately HK\$1,919,000 for the six months ended 30 June 2017 to approximately HK\$1,763,000 for the six months ended 30 June 2018. Sales to PRC slightly increased by approximately 1.4% from approximately HK\$1,306,000 for the six months ended 30 June 2017 to approximately HK\$1,324,000 for the six months ended 30 June 2018. Apart from the major markets, sales to other countries including Australia, Japan, Canada, India, Korea, Singapore and Malaysia, etc. decreased by approximately 43.7% from approximately HK\$8,337,000 for the six months ended 30 June 2017 to approximately HK\$4,697,000 for the six months ended 30 June 2018.

In terms of product category, sales of belts decreased by approximately 16.2% to approximately HK\$18,020,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$21,510,000) while sales of leather goods and other accessories increased by approximately 11.9% to approximately HK\$3,615,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$3,230,000). In view of the weak demand and the operating environment, the Group strived to streamline human resources and reduce other overhead costs. Also, the Group continued to consume the existing inventory. As a result, the Group's manufacturing business segment recorded significant reduction in operating loss of approximately HK\$961,000 (six months ended 30 June 2017: approximately HK\$2,695,000).

RETAIL BUSINESS

The Group's revenue from its retail business decreased by 8.2% from approximately HK\$14,147,000 for the six months ended 30 June 2017 to approximately HK\$12,991,000 for the six months ended 30 June 2018. The Group's in-house brand sales decreased by approximately 2.5% and it accounted for approximately 93.3% of total retail sales for the six months ended 30 June 2018 as compared to approximately 87.9% during the six months ended 30 June 2017. The decrease was mainly due to the closing of three stores and the weakening retail market in Hong Kong. High in-house brand sales drove up gross profit margin of the Group from approximately 44.9% for the six months ended 30 June 2017 to approximately 51.0% for the six months ended 30 June 2018.

The overall shop rental to revenue ratio decreased to 32.1% for the six months ended 30 June 2018 (six months ended 30 June 2017: 40.8%) due to the closing of three stores and reduction of the rental costs after renewal of tenancy of some stores. The staff costs to revenue ratio slightly decreased to 19.7% for the six months ended 30 June 2018 (six months ended 30 June 2017: 24.3%).

As a consequence of the above, the Group's retail business segment recorded an operating loss of approximately HK\$19,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$875,000). During the reporting period, the Group operated five AREA 0264 stores and one Teepee Leather workshop in Hong Kong (six months ended 30 June 2017: eight AREA 0264 stores and one Teepee Leather workshop).

PROSPECT

Despite the moderate recovery of the global economy, the economic downturn is expected to carry on in this industry. The Group would continue to press ahead the reduction of inventory level, strengthening the customer base and making every effort to mitigate the losses.

Aware of the keen competition in retail business in Hong Kong, together with the pressure from the constantly climbing operating costs, particularly rental and staff costs, the Group is still wary of the risks and challenges ahead. The Group will be very cautious in selecting potential store locations and renew the tenancies of the existing stores upon their expiry, in order to maintain effective cost control to continuously improve its profit margin.

Moving forward, the Group will continue to review its business strategic directions in order to capture its long term corporate strategy and growth. The Group will also explore other attractive investment and acquisition opportunities in the other sectors, so as to enhance profitability and maximize our shareholders' value.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, the Group's cash and bank deposits were approximately HK\$23,166,000 as compared to approximately HK\$44,507,000 as at 31 December 2017.

The Group recorded total current assets of approximately HK\$61,375,000 as at 30 June 2018 (31 December 2017: approximately HK\$85,751,000) and total current liabilities of approximately HK\$28,799,000 as at 30 June 2018 (31 December 2017: approximately HK\$26,113,000). The decrease of total current assets was mainly due to the investment of a joint venture at the consideration of HK\$20,000,000 in the reporting period. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 2.13 times as at 30 June 2018 (31 December 2017: approximately 3.28 times).

The Group recorded shareholders' equity of approximately HK\$52,264,000 as at 30 June 2018 (31 December 2017: approximately HK\$61,526,000). The decrease was mainly attributable to operating loss incurred in the reporting period.

TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars ("HK\$"), US dollars ("USD") and Renminbi ("RMB"). Transactions of the Group are mainly denominated in HK\$, USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. In addition, it is estimated that the Group's exposure to foreign exchange fluctuation in Renminbi against Hong Kong dollars would have insignificant effects on profit or loss and other component of equity of the Group. Foreign exchange forward contract can be used to eliminate the currency risk exposure. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

PLEGGED ASSETS

The Group did not have any pledged assets as at 30 June 2018.

MATERIAL ACQUISITION AND DISPOSAL

On 23 January 2018, the Group entered into a joint venture agreement with Jubilee Ventures International Limited (“Jubilee”) and an independent third party, pursuant to which the Group has subscribed for 30% of the enlarged issued share capital of Eastation Gallery (HK) Limited (“JV Company”) at a subscription price of HK\$20,000,000. The JV Company is principally engaged in consultation and trading of artworks and the operating of an art gallery in Hong Kong.

Except for disclosed above, the Group had no material acquisition or disposal of subsidiaries or associated corporations for the six months ended 30 June 2018.

Subsequent to the reporting period, on 17 August 2018, the Group entered in into the sale and purchase agreement with Jubilee, pursuant to which Jubilee has agreed to acquire and the Group has agreed to sell the 30% of the issued share capital of the JV Company as mentioned in note 9 to the condensed interim financial statements at a cash consideration of HK\$18,000,000. At the date of this report, the disposal has been completed.

HUMAN RESOURCES

As at 30 June 2018, the Group had approximately 52 employees in Hong Kong and approximately 161 workers and employees in the PRC. The Group remunerated its employees mainly based on their individual performance.

DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have been taken under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (“Model Code”) contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS OF INTEREST IN SHARES

As at 30 June 2018, other than the interests and short positions of the Directors or chief executives of the Company disclosed above, person or corporation who had interests in the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or Indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS

(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Xu Hong Wei	Interest of a controlled corporation	347,760,406 (Note 1)	90.87%
Twinkle Link Limited	Beneficial owner	347,760,406 (Note 1)	90.87%

Notes:

- 347,760,406 shares are held by Twinkle Link Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Xu Hong Wei.

Save as disclosed above, as at 30 June 2018 the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 February 2003, the Company adopted a share option scheme (the “Share Option Scheme”).

The Share Option Scheme expired on 17 February 2013 and the Company has not adopted any new share option scheme thereafter.

There was no outstanding share option of the Company under the Share Option Scheme as at 1 January 2018 and 30 June 2018 respectively and no share option of the Company being granted, exercised, lapsed or cancelled during the period under review.

DIRECTORS’ RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “Directors’ and chief executives’ interests and short position in the shares, underlying shares and debentures” and “Share options” above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries, a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors, there was no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company’s annual report published 29 March 2018 or their appointment (to the extent the Director is appointed after 29 March 2018).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2018.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Reference is made to the Company's announcement dated 18 May 2018 in relation to the transfer of approximately 60.09% of the share capital of the Company from Zhurong Global Limited to Twinkle Link Limited and the mandatory unconditional cash offer (the "Offer") as disclosed therein. On 25 July 2018, the Offer was closed and settled and immediately upon the close of the Offer, Twinkle Link Limited and parties acting in concert with it were interested in a total of 347,760,406 Shares, representing approximately 90.87% of the entire issued share capital of the Company. Details of the close of Offer were set out in the Company's announcement dated 25 July 2018.

Please refer to the section titled "Material Acquisition and Disposal" above for further details on the disposal of the JV Company subsequent to the reporting period.

PUBLIC FLOAT

Upon the close of the Offer made by Twinkle Link, the controlling shareholder of the Company, on 25 July 2018, there were 34,943,594 Shares in the hands of the public, representing approximately 9.13% of the entire issued share capital of the Company. The Company therefore cannot fulfill the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules. The Stock Exchange has granted a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period from 25 July 2018 to 24 October 2018.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions (the "Code Provision(s)") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2018, except for the deviations from Code Provisions C.2.5 of the CG Code. Under the Code Provision C.2.5 of the CG Code, the Group should have an internal audit function. The Group has reviewed the need for an internal audit department annually. Due to the present company structure, the management of the Company is of the opinion that instead of setting up an internal audit department, it would be more cost effective to engage an independent professional third-party to review the Group's internal control measures and report to the Audit Committee members. The review covered the adequacy of resources, staff qualifications and experience, training programmes, budget, internal audit, financial reporting functions and Listing Rules compliance. Major risk factors and recommendations were presented to the Audit Committee members for their consideration.

The Company will periodically review its corporate governance practices to ensure its continuous compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 June 2018.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting than the required standard set out in the Model Code. All the relevant employees who, because of office or employment, are likely to be in possession of inside information in relation to the Company's securities has been requested to follow such code when dealing in the securities of the Company.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee comprised four independent non-executive Directors, Mr. Wong Kwun Ho (Chairman), Mr. Cheng Shing Hay, Mr. Wong Kon Man Jason and Mr. Liang Jianhai. The Audit Committee has reviewed with Group's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated interim financial statements and the unaudited results of the Group for the six months ended 30 June 2018.

By order of the Board
Li Wei
Chairlady

Hong Kong, 28 August 2018