美丽中国
BEAUTIFUL CHINA

BEAUTIFUL CHINA HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 706

INTERIM REPORT

2018

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**19,203**	–
Cost of sales		**(11,329)**	–
Gross profit		**7,874**	–
Other income and gains	*4*	**321**	238
Administrative expenses		**(40,213)**	(25,304)
Loss from operations		**(32,018)**	(25,066)
Finance costs	*5*	**(12,539)**	(11,548)
Loss before tax		**(44,557)**	(36,614)
Income tax expense	*6*	**–**	–
Loss for the period	*7*	**(44,557)**	(36,614)
Attributable to:			
Owners of the Company		**(43,465)**	(36,576)
Non-controlling interests		**(1,092)**	(38)
		(44,557)	(36,614)
Loss per share	*9*		
Basic		**HK(0.47) cents**	HK(0.70) cents
Diluted		**HK(0.47) cents**	HK(0.70) cents

The notes on pages 7 to 23 form part of this interim financial report.

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Loss for the period		**(44,557)**	(36,614)
Other comprehensive income for the period, net of tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**(6,676)**	11,804
Total comprehensive income for the period		**(51,233)**	(24,810)
Attributable to:			
Owners of the Company		**(50,141)**	(24,772)
Non-controlling interests		**(1,092)**	(38)
		(51,233)	(24,810)

The notes on pages 7 to 23 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*10*	**58,378**	33,201
Biological assets	*11*	**283,876**	276,377
Prepayments	*12*	**89,613**	105,649
Deposits	*13*	**22,160**	10,855
		454,027	426,082
Current assets			
Inventories		**2,431**	1,805
Trade and other receivables	*14*	**52,075**	52,688
Bank and cash balances		**253,711**	334,960
		308,217	389,453
Current liabilities			
Trade and other payables	*15*	**19,530**	28,097
Finance lease payable		**470**	513
Convertible bonds		**4,170**	18,321
Current tax liabilities		**1,483**	1,494
		25,653	48,425
Net current assets		**282,564**	341,028
Total assets less current liabilities		**736,591**	767,110
Non-current liabilities			
Finance lease payable		**1,482**	1,694
Convertible bonds		**114,484**	107,188
		115,966	108,882
Net assets		**620,625**	658,228
Capital and reserves			
Share capital	*16*	**92,644**	918,939
Reserves		**529,245**	(260,539)
Equity attributable to the owners of the Company		**621,889**	658,400
Non-controlling interests		**(1,264)**	(172)
Total equity		**620,625**	658,228

The notes on pages 7 to 23 form part of this interim financial report.

	(Unaudited) Attributable to owners of the Company									
	Share capital	**Share premium**	**Contributed Surplus**	**Share option reserve**	**Translation reserve**	**Convertible bonds reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	525,108	680,157	–	4,020	(6,466)	26,320	(792,788)	436,351	(110)	436,241
Total comprehensive income for the period	–	–	–	–	11,804	–	(36,576)	(24,772)	(38)	(24,810)
At 30 June 2017	525,108	680,157	–	4,020	5,338	26,320	(829,364)	411,579	(148)	411,431
At 1 January 2018	**918,939**	**544,239**	**–**	**7,625**	**26,325**	**26,320**	**(865,048)**	**658,400**	**(172)**	**658,228**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(6,676)**	**–**	**(43,465)**	**(50,141)**	**(1,092)**	**(51,233)**
Shares issued upon conversion of convertible bonds	**7,504**	**7,499**	**–**	**–**	**–**	**(1,373)**	**–**	**13,630**	**–**	**13,630**
Capital Reduction *(Note 16)*	**(833,799)**	**(551,738)**	**1,385,537**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share Option Lapsed	**–**	**–**	**–**	**(60)**	**–**	**–**	**60**	**–**	**–**	**–**
At 30 June 2018	**92,644**	**–**	**1,385,537**	**7,565**	**19,649**	**24,947**	**(908,453)**	**621,889**	**(1,264)**	**620,625**

The notes on pages 7 to 23 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	**(41,993)**	(52,092)
Net cash used in investing activities	**(28,303)**	(22,829)
Net cash used in financing activities	**(12,758)**	(4,569)
Net decrease in cash and cash equivalents	**(83,054)**	(79,490)
Effect of foreign exchange rates changes, net	**1,805**	3,446
Cash and cash equivalents at 1 January	**334,960**	208,646
Cash and cash equivalents at 30 June	**253,711**	132,602

The notes on pages 7 to 23 form part of this interim financial report.

1 BASIS OF PREPARATION

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

The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

These unaudited condensed consolidated interim financial statements have been prepared under the historic cost convention, except for the biological assets that are measured at fair value less costs to sell.

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

The condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2017. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the HKFRSs.

2 ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2017 except in relation to the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that are adopted for the first time for the current period's financial statements. The Group has identified some aspects upon the initial adoption of the standards of HKFRS 9 and HKFRS 15 as below.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

The Group has adopted this new standard on the required effective date and did not restate comparative information.

Based on the assessment by the Group, there would be no retrospective item that existed and no significant cumulative effect of the initial application of HKFRS 9 at 1 January 2018 in accordance with the transition requirement.

(i) *Classification of financial assets and financial liabilities*

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

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

HKFRS 9 Financial Instruments **(CONTINUED)**

(i) *Classification of financial assets and financial liabilities* **(CONTINUED)**

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

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

There is no reclassification or remeasurement of the financial assets, including cash and cash equivalent and trade and other receivables, for the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) *Impairment*

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and days past due. The loss allowance for trade and other receivables applies lifetime expected credit loss. Expected credit loss on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. Compared to the incurred loss model of HKAS 39, it did not result in a material difference and hence did not result in an adjustment of opening accumulated losses as of January 1, 2018.

2 ACCOUNTING POLICIES (CONTINUED)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has adopted the standard using the modified retrospective approach which means that the cumulative impact of the adoption is recognised in accumulated losses as of 1 January 2018 and that comparatives have not been restated.

(a) Timing of revenue recognition

Previously, revenue arising from the provision of landfill management, treatment services and waste sorting is recognised over time, whereas revenues from sales of tree seedlings, pyrolysis oils and other materials are generally recognised when the risks and rewards of ownership have passed to the customers.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from the provision of landfill management, treatment services and waste sorting.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

(b) Warranty obligations

The Group generally provides for warranties for repairs to non-qualified products and does not provide extended warranties in its contracts with customers. As such, most existing warranties are assurance-type warranties under HKFRS 15, which will continues to be accounted for under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2018. The following new HKFRS may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of this new standard is expected to be in the period of initial application. As the Group has not completed its assessment, significant impacts may be identified in due course.

3 SEGMENT INFORMATION

The chief operating decision-maker ("CODM") which is responsible for allocating resources and assessing performance of the operating segments has been defined as the executive directors of the Company.

The CODM has identified the following three reportable segments under HKFRS 8 "Operating Segments". No operating segments have been aggregated to form the following reportable segments.

The Group has three reporting segments as follows:

Tree plantation	–	Cultivation and trading of North American red maple tree seedlings (the "Seedlings")
Landfill management and waste sorting	–	Provision of landfill management, treatment services and waste sorting
Waste pyrolysis	–	Production and trading of pyrolysis oils and the other materials

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include unallocated administrative expenses, other income and gains and finance costs. Segment assets do not include amounts due from group companies. Segment liabilities do not include amounts due to group companies, liability component of convertible bonds and finance lease payable.

All operating assets and operations of the Group during the periods ended 30 June 2018 and 2017 were substantially located and carried out in the People's Republic of China (the "PRC").

3 SEGMENT INFORMATION (CONTINUED)

Information about operating segment profit or loss, assets and liabilities:

	(Unaudited)			
	Tree plantation *HK$'000*	Landfill management and waste sorting *HK$'000*	Waste pyrolysis *HK$'000*	Total *HK$'000*
For the six months ended 30 June 2018				
Revenue from external customers	**18,375**	**–**	**828**	**19,203**
Segment gain/(loss)	**7,011**	**(2,726)**	**(5,293)**	**(1,008)**
Interest income	**–**	**84**	**–**	**84**
Depreciation and amortisation	**79**	**491**	**1,065**	**1,635**
Capital expenditure	**2,482**	**–**	**53,675**	**56,157**
As at 30 June 2018				
Segment assets	**424,345**	**113,708**	**87,655**	**625,708**
Segment liabilities	**2,918**	**3,974**	**1,139**	**8,031**

3 SEGMENT INFORMATION (CONTINUED)

	(Unaudited)		
	Tree plantation *HK$'000*	Landfill management and waste sorting *HK$'000*	Total *HK$'000*
For the six months ended 30 June 2017			
Revenue from external customers	–	–	–
Segment loss	(1,299)	(2,731)	(4,030)
Interest income	1	–	1
Depreciation and amortisation	(110)	(452)	(562)
Capital expenditure	1,069	19,562	20,631

	Tree plantation *HK$'000*	Landfill management and waste sorting *HK$'000*	Waste pyrolysis *HK$'000*	Total *HK$'000*
As at 31 December 2017				
Segment assets (audited)	425,295	81,967	27,874	535,136
Segment liabilities (audited)	3,434	4,283	1,828	9,545

4 OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**321**	238

5 FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Finance lease charges	**36**	–
Interest on convertible bonds	**12,503**	11,548
	12,539	11,548

6 INCOME TAX EXPENSE

No provision for profits tax in Bermuda, the British Virgin Islands or Hong Kong is required since the Group has no assessable profits arising in or derived from those jurisdiction for the six months ended 30 June 2018 and 2017.

No provision for the PRC Enterprise Income Tax (the "EIT") has been made in the consolidated financial statements for the six months ended 30 June 2018 and 2017 since the PRC subsidiaries either have no assessable profits or are exempted from the EIT on profits derived from seedlings cultivation for both periods. The exemption is subject to annual review by the local PRC tax authority of the PRC subsidiary and any future changes in the relevant tax exemption policies or regulations.

7 LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging the following:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation:		
– Owned assets	**2,231**	1,163
– Leased asset	**305**	–
Staff costs including directors' emoluments	**15,795**	9,239

8 DIVIDEND

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

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to the owners of the Company for the six months ended 30 June 2018 is based on the loss for the period attributable to owners of the Company of approximately HK$43,465,000 (six months ended 30 June 2017: loss of approximately HK$36,576,000) and the weighted average number of ordinary shares of approximately 9,227,127,000 (six months ended 30 June 2017: approximately 5,251,085,000) in issue during the period.

(b) Diluted loss per share

As the exercise of the Group's outstanding convertible bonds would be anti-dilutive and there were no dilutive potential ordinary shares of the Company's share options for both periods, the diluted loss per share was same as the basic loss per share.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group had additions of property, plant and equipment at a total cost of HK$28,541,000 (six months ended 30 June 2017: HK$23,351,000), and wrote off of property, plant and equipment with a total net carrying amount of HK$NIL (six months ended 30 June 2017: HK$284,000).

11 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

The Group's biological assets are the Seedlings which are held for sale in the ordinary course of business and for use in garden and landscape construction projects. The Seedlings are categorised as consumable biological assets.

The quantities of the Seedlings owned by the Group as at 30 June 2018 and 31 December 2017 are listed below:

	At 30 June 2018 (Unaudited) *Unit'000*	At 31 December 2017 (Audited) *Unit'000*
The Seedlings:	**1,025**	1,047

22,000 (2017: Nil) units of the seedlings were sold during the period.

The Group is exposed to a variety of risks related to its tree seedlings cultivation:

(i) *Regulatory and environmental risks*

The Group is subject to laws and regulations in the jurisdiction in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

11 BIOLOGICAL ASSETS (CONTINUED)

(a) Nature of the Group's agricultural activities (CONTINUED)

(ii) Climate and other risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls, etc. The Group has agreements in place with the supplier of the Seedlings who support the growth of the Seedlings in order to ensure that the survival rate of the Seedlings is not less than 95%.

(iii) Commodity price risk

The Group is exposed to commodity price risk arising from fluctuations in the prices of the Seedlings. The Group does not anticipate that the prices of the Seedlings will decline significantly in the foreseeable future and, therefore, has not entered into any derivative or other contracts to manage the risk of a decline in the prices of the Seedlings. The Group reviews its outlook for the prices of the Seedlings regularly in considering the need for active commodity price risk management.

11 BIOLOGICAL ASSETS (CONTINUED)

(b) Value of the Group's biological assets

Movements of the Seedlings are summarised as follows:

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
At the beginning of the reporting period	**276,377**	177,144
Increase due to exchange	**–**	70,761
Increase due to compensation	**–**	5,048
Increase due to purchases	**–**	7,890
Increase due to plantation costs *(note 1)*	**18,287**	39,682
Decrease due to sales	**(9,149)**	(28,046)
Decrease due to mortality	**–**	(4,680)
Changes in fair value less costs to sell of biological assets	**–**	(5,891)
Exchange adjustments	**(1,639)**	14,469
At the end of the reporting period	**283,876**	276,377

Note 1: The plantation costs comprise consulting and maintenance service costs, staff costs, depreciation, rental expenses of nurseries and other incidental costs.

The directors estimate the fair values of the Group's biological assets are not materially different from their carrying values as at 30 June 2018.

12 PREPAYMENTS

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Prepaid consulting and maintenance service costs *(note)*	**89,613**	105,649

Note: Pursuant to several sales and purchase agreements entered into between the Group and a supplier, the supplier agreed to sell the Seedlings; and to provide 5 years consultancy and maintenance services on the growth of the Seedlings in order to ensure that the survival rate of the Seedlings is not less than 95%. The excess of the total consideration over the fair value of the Seedlings at initial recognition is recognised as prepaid consultancy and maintenance service costs and amortised over 5 years on a straight-line basis. The amortised consultancy and maintenance service costs are capitalised in the plantation costs of biological assets.

13 DEPOSITS

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Deposits paid for purchase of property, plant and equipment	**22,160**	9,830
Deposits paid for purchase of the Seedlings	**–**	1,025
	22,160	10,855

14 TRADE AND OTHER RECEIVABLES

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Trade receivables *(note)*	**28,819**	42,805
Allowance for trade receivables	**–**	(3,098)
	28,819	39,707
Prepayments, deposits and other receivables	**23,256**	12,981
Total trade and other receivables	**52,075**	52,688

Note: The Group's trading terms with all customers are mainly on credit. The credit period is ranging from 30 days to 150 days. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain a good relationship. Trade receivables with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

As at 30 June 2018, trade receivables of approximately HK$19,949,000 were past due but not impaired (31 December 2017: approximately HK$8,965,000), of which approximately HK$4,150,300 were settled subsequently on July 2018, and the remaining will be settled in accordance with the revised terms of the respective contracts. The directors believe that no impairment allowance is necessary in respect of these balances are considered fully recoverable.

The aging analysis of trade receivables, based on invoice date and net of allowance, is as follows:

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Current	**8,870**	30,742
3 to 12 months	**11,445**	8,965
Over 1 year	**8,504**	–
	28,819	39,707

15 TRADE AND OTHER PAYABLES

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Trade payables *(note)*	**2,416**	3,995
Other payables and accrued expenses	**17,114**	24,102
Total trade and other payables	**19,530**	28,097

Note: The aging analysis of trade payables, based on the period of services rendered, is as follows:

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
1 to 3 months	**212**	2,163
3 to 12 months	**1,709**	–
Over 1 year	**495**	1,832
	2,416	3,995

16 SHARE CAPITAL

	At 31 December 2017 (Audited)	
	No. of shares	Amount
	'000	*HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each	12,000,000	1,200,000

	At 30 June 2018 (Unaudited)	
	No. of shares	**Amount**
	'000	***HK$'000***
Authorised:		
Ordinary shares of HK$0.01 each	**120,000,000**	**1,200,000**

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Issued and fully paid:				
At beginning of the reporting period	**9,189,399**	**918,939**	5,251,085	525,108
Shares issued under right issue	**–**	**–**	3,938,314	393,831
Shares issued upon conversion of convertible bonds	**75,037**	**7,504**	–	–
Capital reduction *(note)*	**–**	**(833,799)**	–	–
At the end of the reporting period	**9,264,436**	**92,644**	9,189,399	918,939

Note: The Company has passed the special resolution for the Capital Reduction at Special General Meeting on 10 May 2018. Thus, the issued share capital of the Company will be reduced by a reduction of par value of each issued existing share from HK$0.10 to HK$0.01, which reduction will comprise a cancellation of such amount of the paid-up capital on each issued existing share and an extinguishment and reduction of any part of the capital not paid up on any issued existing shares so that each issued existing share will be treated as one fully paid up share of par value HK$0.01 each in the share capital of the Company immediately following the Capital Reduction and the credit of amount HK$833,799,000 arising from the Capital Reduction will be credited to the contributed surplus account of the Company within the meaning of the Companies Act. For the details, reference is made to the announcements dated 26 March 2018, 27 March 2018 and 11 April 2018 in relation to the proposed Capital Reorganisation.

17 COMMITMENTS

(a) Lease commitments

As at 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Within one year	**17,253**	14,199
In the second to fifth years inclusive	**49,440**	42,990
After five years	**7,365**	14,289
	74,058	71,478

Operating lease payments represent rentals payable by the Group for its offices and nurseries. Leases are negotiated for terms ranging from one to eleven years and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Capital commitments

Capital commitments contracted for at the end of each reporting period but not yet incurred are as follows:

	At 30 June 2018 (Unaudited) *HK$'000*	At 31 December 2017 (Audited) *HK$'000*
Property, plant and equipment	**11,796**	104,852

18 CONTINGENT LIABILITIES

There were no significant contingent liabilities as at 30 June 2018 and 31 December 2017.

19 RELATED PARTY TRANSACTIONS

There were no significant related party transactions undertaken by the Group during the periods ended 30 June 2018 and 2017.

BUSINESS REVIEW

Since the beginning of 2018, the financial departments at all levels in the PRC government have been enforcing the decisions and arrangements of the central government of the PRC to adjust and optimise the expenditure structure based on the requirements for high-quality development, and to concentrate on supporting several key areas, such as eco-environmental protection, along with stringent control over general expenditures. In the first half of 2018, the Chinese government continued with implementing the concept of "Beautiful China" by supporting the control and prevention of pollutions. The expenditures on national energy conservation and environmental protection during the first half of 2018 amounted to approximately RMB262.7 billion, representing an increase of approximately 16.3% over the same period in 2017. Of this expenditure, the expenditure on pollution prevention and control was approximately RMB84.6 billion, with a year-on-year increase of approximately 19.5%, which was earmarked for solving prominent environmental problems and accelerating the prevention and control of atmospheric, water and soil pollution to improve the quality of the eco-environment.

In support of the PRC's environmental policies for boosting green development and implementing the concept of "Beautiful China", Beautiful China Holdings Company Limited (the "Company") and its subsidiaries (the "Group") took the initiative in pro-actively carrying out strategic collaboration with leading enterprises in different fields to achieve resource complementarity, and push forward project implementation and business strategy. Under the public-private partnership ("PPP") policy, which has been strongly encouraged and supported in recent years by the PRC government, a large amount of environment-related projects have been launched in the PRC, creating a large market for the rapid development of the environmental industry and spurring explosive growth in the industry size and corporate performance. The PPP model is anticipated to become the pivotal point for the development of environmental and utilities industries over the next three to five years. Therefore, the Company will work closely with the governments of different provinces, cities and counties in the PRC using the PPP model in the future.

(I) Ecological Environment Construction Business

For the tree seedlings business segment, the Group has approximately 1 million units of North American red maple tree seedlings planted in the nursery bases in Anhui, Jiangsu and Zhejiang, the PRC, which represent the biological assets of the Group. The North American red maple tree seedlings are divided in two categories: Sunset Glow and October Glory. Of these, approximately 0.6 million units of North American red maple tree seedlings are cultivated and planted at the Group's colour seedling nursery base which occupies an area of approximately 5,879 mu in aggregate in Bengbu, Anhui, the PRC. The Company is engaged in the sales of maple tree seedlings, which usually occur in autumn of each year, and the products are sold to customers in Shanxi Province, Shandong Province, and other areas of the PRC. While maintaining the previous scale of cultivation and planting, the Group plans to commence a new eco-planting project in Weifang, Shandong, so as to enlarge and strengthen the ecological environmental construction business segment. During first half of the year, the Group sold a total of 22,000 seedlings, generating sales revenue of approximately HK$18,375,000.

BUSINESS REVIEW *(Continued)*

(I) Ecological Environment Construction Business *(Continued)*

With regard to the construction of ecological landscape projects, there were few opportunities for quality landscape projects as a result of reduction of the expenses by the governments at all levels in the PRC on the construction of municipal landscape facilities, coupled with intense market competition. As such, the Group did not undertake any new landscape construction projects during the period. Although the Group continued to follow up with the progress in the construction of the project involving the West Coast Wetland Park in Dianchi Lake, Kunming, since the Yunnan provincial government introduced new protection regulations for Dianchi Lake at the end of 2016, the Kunming municipal government has modified its planning design and construction plan for the project. As a result, the Group has not yet officially commenced the project construction since it was awarded with the tender for the project in the second half of 2016. As at the date of this report, the Group had yet to wait for the Kunming municipal government to clarify the new plan for carrying out the project construction.

(II) Environmental Protection Treatment Service Business

The Group focuses its environmental protection treatment service business by recycling solid waste into renewable resources, and carrying out integrated domestic waste treatment, regeneration and capacity expansion of waste landfills, and third-party treatment services for industrial pollution to meet the needs for the establishment of a solid waste collection system.

Based on its development strategy for both the environmental business segment and the treatment of "black and white pollutants" such as waste rubber and waste plastics, the Group continued to focus on exploring the environmental markets in Shandong and other key areas in the PRC. It plans to launch a new construction project with a processing capacity of 260,000 tonnes of waste rubber and a processing capacity of 66,000 tonnes of waste plastics during the year.

BUSINESS REVIEW *(Continued)*

(II) Environmental Protection Treatment Service Business *(Continued)*

In December 2017, the Group entered into an agreement with Zouping Yuanrun Carbon Black Technology Limited*（鄒平元潤炭黑科技有限公司）in relation to capital injection, under which the Group injected a sum of RMB46,660,000 (equivalent to approximately HK$57,000,000) into Shandong Kaiyuan Runfeng Environmental Protection Technology Company Limited*（山東開元潤豐環保科技有限公司）("Shandong Kaiyuan Runfeng"), whereby the Group owned a 70% interest in Shandong Kaiyuan Runfeng upon completion of such capital injection. The capital injection was completed early this year, enabling the Group to be equipped with a pyrolysis processing capacity of 20,000 tonnes of scrap tyres per year. In relation to Shandong Kaiyuan Runfeng's expansion programme on a pyrolysis capacity of 40,000 tonnes of scrap tyres per year, the basic installation of equipment has been completed and the trial production has begun. Together with the existing capacity of 20,000 tonnes per year, the Group will have a pyrolysis capacity of 60,000 tonnes in aggregate of scrap tyres per year, making it one of the scrap rubber pyrolysis treatment enterprises with the largest capacity in the PRC. The expansion plan for a capacity of remaining 40,000 tonnes per year for the Kaiyuan Project (as defined in the circular of the Company dated 18 August 2017) will be scheduled to start separately in order to reach a capacity of 100,000 tonnes in aggregate per year.

For the environmental protection treatment service business segment, the Group entered into joint venture collaboration with Integrated Green Energy Singapore Pte. Ltd., a company incorporated in Singapore with limited liability and a wholly-owned subsidiary of Integrated Green Energy Solutions Ltd., a company incorporated in Australia and the shares of which are listed on the Australian Stock Exchange (ASX: IGE), pursuant to which the two parties plan to cooperate in the investment, construction and operation of the waste plastics pyrolysis and recycling business in mainland China. Specifically, the two parties will jointly invest in the construction and operation of a waste plastics pyrolysis project with a capacity of 66,000 tonnes per year. The project investment is estimated at approximately US$25 million, with preparations for project siting and project initiation underway.

As to waste treatment project, the contract for a domestic waste landfill treatment project in Qiqihar was officially terminated in July 2018 after consultation with the counterparty of the project due to various factors such as restrictions on construction requirements and risks associated with project fund payment. The two parties completed the settlement of project funds based on the amount of work measured by a third-party professional institution. The Group has withdrawn from the project construction site after transferring the management rights to the site to China National Environmental Protection Group.

PROSPECTS

The global economic outlook has become increasingly promising as China's economic growth began to stabilise. The report delivered at the 19th CPC National Congress once again expressly set "Speeding up Reform of the Ecological Civilization System, and Building a Beautiful China" as a goal by proposing an array of new concepts, new requirements, new goals, and new deployments for eco-environmental protection for the build-up of ecological civilisation, indicating that green development is one of the policies enforced by the PRC government at the moment. The Company believes that governments in various regions in the PRC will increase resources commitment in this area on an on-going basis in the future.

Over the past few years, "Eco-environmental Build-up + Environmental Treatment Service", a dual-wheel driven business strategy of the Group, has gradually become a well-developed strategy. In the future, the Group will modify its business in a timely manner, seize the opportunities arising from various policies and continue to step up the development of the eco-environmental business.

For the ecological environment construction business, by centering on such vertical industrial chain expansion and development strategies as "seedling nursery and project construction", and based on the business development plan for colour seedlings, the Group will continue to invest in the construction of the colour seedling base in Wuhe of Bengbu, Anhui, commit resources to the nursery and management of existing seedlings, enhance the breeding capacity of colour seedlings, expand the size of the base steadily, and accelerate the process for the sales of grown-up seedlings. Meanwhile, the Group will continue to proceed with the construction of the rare seedling base with a million seedlings represented by North American red maple, in an attempt to achieve its goal of becoming one of the largest colour seedling suppliers in Asia.

Moreover, the Group will continue to expand its edges in investment and financing; build innovative construction models; and explore, develop and construct the ecological landscape projects with regional demonstration effect, so as to increase the scale of ecological landscape business. The Group will closely communicate with relevant government authorities in the PRC and commence construction as soon as the local government in the PRC has drawn up the design and construction plans for the Dianchi Lake West Coast project in Kunming. In addition to continue to follow up the development of subsequent ecological wetland development projects for Dianchi Lake West Coast in Kunming, the Group will look for opportunities to take on new ecological landscape investment and construction projects in a timely manner.

PROSPECTS *(Continued)*

For the environmental protection treatment service business, the Group will continue to develop the integrated waste treatment and renewable resources recycling business, focus on the core business of pyrolysis processing of waste rubber and plastics, and expand solid waste treatment services such as integrated waste treatment, and third-party treatment services for industrial and agriculture pollution so as to meet the need for the establishment of a solid waste collection system. In the initial stage of the business, the Group will adopt an integrated cooperation strategy, position itself in investment and operation, focus on core business and superior resources, and carry out more strategic cooperation with leading companies in processing, technology and equipment (including business cooperation, establishment of professional joint ventures and other forms), to achieve resources complementarity, and accelerate project implementation and business strategy.

The Group has entered into a cooperative framework agreement with Qingdao Yikesida Smart Equipment Company Limited*（青島伊克斯達智能裝備有限公司）("Yikesida Equipment") and Qingdao Yikesida Renewable Resources Company Limited*（青島伊克斯達再生資源有限公司）("Yikesida Renewable Resources"), subsidiaries of Shuangxing Group Company Limited*（雙星集團有限責任公司）in respect of a cooperation project. The Group is currently carrying out due diligence and working out a transaction plan.

Yikesida Equipment owns waste rubber pyrolysis technology and equipment with independent intellectual property rights, while Yikesida Renewable Resources is principally engaged in the investment, construction and operation of waste rubber pyrolysis and resources recycling projects. Their technological equipment and business layout are in line with the Group's needs for development strategy and business planning. The cooperation between the two parties will enable the Group to build up and create capabilities and advantages faster for integrating technical research and development, equipment manufacturing, investment, construction, operation, management and other businesses, so as to effectively support and assure the implementation of the Group's strategy for launching the waste rubber pyrolysis and recycling businesses across the country, and to accelerate the expansion of the scale of the Group's principal business and increasing its operational efficiency.

For the expansion of key markets, the Group's businesses are primarily located in the Shandong region, and the scheduled pyrolysis processing projects for scrap tyres and plastics as well as the renewable resources recycling projects in Binzhou, Weifang, Laizhou and other regions will be gradually launched and put into operation. In addition, the Group intends to gradually expand these projects into other provinces, cities, and regions across the PRC as well, so as to expand its business scale on a nationwide basis.

PROSPECTS *(Continued)*

Looking ahead, the Group will draw on its advantages, pursue differentiated development strategies, and build innovative business models to achieve development breakthroughs and rapid growth in segment markets and create first-mover competitive advantages in the market. For the expansion of the "black and white pollutants" (scrap tyres and plastics) treatment business, as the Group is rapidly expanding the scrap rubber and plastics pyroylsis business by means of the "independent development + M&A" strategy, the Group will extend the product value chain strategy and move into the development of renewable energy and the deep processing business of industrial raw materials in a timely manner to become a leading player in solid waste neutralisation treatment and resources recycling in the PRC.

FINANCIAL REVIEW

Revenue and gross profit

For the six months ended 30 June 2018, the total revenue increase to approximately HK$19.2 million (30 June 2017: Nil). Gross profit significantly increased to approximately HK$7.87 million (30 June 2017: Nil). The increase in revenue and gross profits was mainly due to the sales of tree seedlings.

Administrative expenses

For the six months ended 30 June 2018, administrative expenses increased by approximately 58.89% from approximately HK$25.3 million in the same period last year to approximately HK$40.2 million this year. The increase was mainly due to the hiring of new management and the increase of operation expenses from new business segments at the early setting up stage. The administrative expenses mainly consisted of legal and professional fees, staff costs (including directors' emoluments), office administrative expenses (including rentals), depreciation expenses and travelling expenses.

Finance costs

For the six months ended 30 June 2018, finance costs increased by approximately 8.69% from approximately HK$11.5 million in the same period last year to approximately HK$12.5 million this year. The increase was mainly attributable to two issues of convertible bonds with a combined principal of HK$118 million, which increased the imputed interest costs of convertible bonds during the period.

FINANCIAL REVIEW *(Continued)*

Loss attributable to owners of the Company

As a result of the combined effect of the above factors, the Group recorded an attributable loss of approximately HK$43.5 million for the six months ended 30 June 2018 (30 June 2017: HK$36.6 million).

Fund raising activities

The placing of convertible bonds on 17 August 2016 and 26 August 2016 (the "Placing") raised an aggregate amount of net proceeds of approximately HK$114 million. The table below sets out the utilisation of the net proceeds of the Placing as at the date hereof:

Use of proceeds	Allocation of funds		Utilisation of funds		Unutilised funds	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Kaiyuan Project	91.2	80.0	77.1	67.6	14.1	12.4
General working capital	22.8	20.0	22.8	20.0	–	–
Total	**114.0**	**100.0**	**99.9**	**87.6**	**14.1**	**12.4**

The issue of three (3) rights shares for every four (4) existing Shares on 17 October 2017 (the "Rights Issue") raised an amount of net proceeds of approximately HK$257.9 million. The table below sets out the utilisation of the net proceeds of the Rights Issue as at the date hereof:

Use of proceeds	Allocation of funds		Utilisation of funds		Unutilised funds	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Weifang Project	195.3	75.7	2.8	1.1	192.5	74.6
Kaiyuan Project	9.0	3.5	9.0	3.5	–	–
General working capital	53.6	20.8	51.6	20.0	2.0	0.8
Total	**257.9**	**100.0**	**63.4**	**24.6**	**194.5**	**75.4**

FINANCIAL REVIEW *(Continued)*

Liquidity and Financial Resources

The Group's financial position remained healthy. As at 30 June 2018, the Group had cash and bank balances approximately HK$253.7 million (31 December 2017: approximately HK$335.0 million). The Group had no bank borrowing but had convertible bonds and finance lease payable of approximately HK$120.6 million as at 30 June 2018 (31 December 2017: approximately HK$127.7 million). As at 30 June 2018, the total asset value of the Group was approximately HK$762.2 million (31 December 2017: approximately HK$815.5 million) whereas the total liabilities was approximately HK$141.6 million (31 December 2017: approximately HK$157.3 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 18.6% (31 December 2017: 19.3%).

The Group maintained a net cash (being the total cash and bank balances net of liability portion of convertible bonds and finance lease payable) to total equity ratio of 21.4% (31 December 2017: 31.5%) as at 30 June 2018. With net cash approximately HK$133.1 million (31 December 2017: approximately HK$207.3 million) and net current assets approximately HK$282.6 million (31 December 2017: approximately HK$341.0 million) as at 30 June 2018.

Capital Structure and Pledge on Assets

As at 30 June 2018, the value of convertible bonds issued by the Group (but had not been converted) was approximately HK$118.7 million (31 December 2017: approximately HK$125.5 million).

Segmental Information

Segmental information is presented for the Group as disclosed in note 3 of the notes to the consolidated financial statements.

FINANCIAL REVIEW *(Continued)*

Significant Investments and Material Acquisitions and Disposal of Subsidiaries

During the six months ended 30 June 2018, the Group did not have any significant investments and material acquisitions and disposal of subsidiaries.

Contingent Liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

Exchange Risk

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, Hong Kong dollars or United States dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

Charges on Assets

As at 30 June 2018, the Group had no charges on assets.

Employees, Training and Remuneration Policies

As at 30 June 2018, the Group had 151 (31 December 2017: 67) employees. Employees' costs (including directors' emoluments) amounted to approximately HK$15.8 million (for the six months ended 30 June 2017: approximately HK$9.2 million) for the Period. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programs are provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board may at their absolute discretion, grant options to employees and Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme. During the Period, no share options were granted to directors, executives and employees to their contribution to the Group.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

Reference is made to the announcements of the Company dated 23 May 2017 and 17 October 2017. On 22 May 2017, 2,362,930,000 shares in the issued share capital of the Company held by Leading Value Industrial Limited (a controlling shareholder of the Company) ("Leading Value") have been charged in favour of Quick Run Limited (the "Chargee"), which is a wholly-owned subsidiary of China Huarong International Holdings Limited, and which is an independent third party not connected to the Company or any connected person of the Company (as defined in the Listing Rules). On 17 October 2017, upon the rights issue on the basis of three rights shares for every four existing shares of the Company held on 20 September 2017, additional shares in the issued share capital of the Company held by Leading Value have been charged in favour of the Chargee. As at the date of this report, the total number of shares of the Company charged by Leading Value in favour of the Chargee represents approximately 52.63% of the total issued share capital of the Company.

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the 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 and short positions which they were taken or deemed to have under such provision of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company	Capacity	Number and class of securities *(note 1)*
Sze Wai, Marco	The Company	Interest of controlled corporation *(note 2)*	4,941,963,905 ordinary shares (L)
	The Company	Beneficial owner	1,687,500 ordinary shares (L) *(note 3)*
Chong Yiu Kan, Sherman	The Company	Beneficial owner	8,025,000 ordinary shares (L) *(note 4)*
Lum Pak Sum	The Company	Beneficial owner	5,200,000 ordinary shares (L) *(note 3)*
Liu Liyang	The Company	Beneficial owner	5,200,000 ordinary shares (L) *(note 3)*
Tan Shu Jiang	The Company	Beneficial owner	4,500,000 ordinary shares (L) *(note 3)*

Notes:

1. The letter "L" represents a long position in the Director's interests in the Shares and underlying shares of the Company.

2. These shares were held by Leading Value Industrial Limited and Global Prize Limited, companies wholly owned by Sze Wai, Marco.

3. These shares were the shares which would be allotted and issued upon exercise in full of the options granted to such Director under the share option schemes of the Company.

4. Included in these shares were (i) 1,137,500 issued shares and (ii) 6,887,500 shares would be allotted and issued upon exercise of the options in full granted to him under the share option scheme of the Company.

Save as disclosed above, as at 30 June 2018, none of the Directors and the chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of the 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 and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 23 May 2002, a share option scheme of the Company (the "Old Scheme") was adopted by the Company. The Old Scheme had remained in force for 10 years from that date and expired on 22 May 2012. No further share options can be granted under the Old Scheme.

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 13 June 2014, a new share option scheme of the Company (the "New Scheme") was adopted by the Company, which will expire on 12 June 2024. The Company operates the New Scheme for the purpose of providing incentives or rewards to selected eligible participants who contribute to the success of the Group's operations. Selected eligible participants of the New Scheme include directors, employees of the Company or any of its subsidiaries and any officers or consultants who will provide or have provided services to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company may not exceed 30% of the relevant class of shares in issue from time to time. No options may be granted under the New Scheme or any other share option scheme of the Company if it will result in this limit being exceeded. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each selected eligible participant in any 12-month period and up to the date of grant shall not exceed 1% of the shares of the Company in issue.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the New Scheme must be approved by the independent non-executive directors of the Company (excluding an independent non-executive director who is the proposed grantee of the Company). In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing an aggregate value of over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The period within which the options must be exercised will be determined by the board of directors of the Company at its absolute discretion. This period will expire no later than 10 years from the date on which the New Scheme is conditionally adopted by an ordinary resolution of the shareholders. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 21 days from the date of the offer and a non-refundable nominal consideration of HK$1 is payable upon acceptance of an option.

SHARE OPTION SCHEME *(Continued)*

The subscription price for the shares of the Company under the New Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company as shown in the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of the Company on the date of grant.

The unexercised outstanding share options under the Old Scheme as at 30 June 2018 are as follows:

			Number of share options				
Grantee	**Date granted**	**Exercisable period**	**Exercise price of options** *HK$*	**Outstanding as at 1.1.2018**	**Exercised during the period**	**Lapsed during the period**	**Outstanding as at 30.6.2018**
Directors							
Sze Wai, Marco	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.240 *	1,687,500	–	–	1,687,500
Tan Shu Jiang	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.240 *	4,500,000	–	–	4,500,000
Independent non-executive directors							
Chong Yiu Kan, Sherman	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.240 *	1,687,500	–	–	1,687,500
	10 Nov 2017	10 May 2018 – 9 Nov 2027	0.100	5,200,000	–	–	5,200,000
Lum Pak Sum	10 Nov 2017	10 May 2018 – 9 Nov 2027	0.100	5,200,000	–	–	5,200,000
Liu Liyang	10 Nov 2017	10 May 2018 – 9 Nov 2027	0.100	5,200,000	–	–	5,200,000
Non-executive director							
Law Fei Shing	10 Nov 2017	10 May 2018 – 9 Nov 2027	0.100	5,200,000	–	(5,200,000)	–
Employees	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.240 *	14,737,500	–	–	14,737,500
	10 Nov 2017	10 May 2018 – 9 Nov 2027	0.100	287,000,000	–	–	287,000,000
				330,412,500	–	(5,200,000)	325,212,500

During the period under review, no share options were granted or cancelled.

The share options under the Old Scheme are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions are as follows:

Date granted	**Vesting period**	**Percentage of options vested**
24.06.2009	24.06.2009 – 23.12.2009	Nil
	24.12.2009 – 23.06.2019	100%
10.11.2017	10.11.2017 – 09.05.2018	Nil
	10.05.2018 – 09.11.2027	100%

* The number of share options and exercise prices have been adjusted to reflect the rights issue issued in 2017.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 30 June 2018, the following persons and entities, other than a Director or chief executive of the Company, had an interest or long positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares	Capacity	Approximate percentage of interest
Leading Value Industrial Limited *(Note 1)*	4,938,393,905	Beneficial owner	53.30
Global Prize Limited *(Note 1)*	3,570,000	Beneficial owner	0.04
The Ministry of Finance of the People's Republic of China *(Note 2)*	853,604,067	Interest in controlled corporation *(Note 3)*	9.21
	4,875,546,570	Having a security interest in shares	52.63
China Huarong Asset Management Co., Ltd. *(Note 2)*	853,604,067	Interest in controlled corporation *(Note 3)*	9.21
	4,875,546,570	Having a security interest in shares	52.63
Huarong Real Estate Co., Ltd. *(Note 2)*	853,604,067	Interest in controlled corporation *(Note 3)*	9.21
	4,875,546,570	Having a security interest in shares	52.63
Huarong Zhiyuan Investment & Management Co., Ltd. *(Note 2)*	853,604,067	Interest in controlled corporation *(Note 3)*	9.21
	4,875,546,570	Having a security interest in shares	52.63
China Huarong International Holdings Limited *(Note 2)*	853,604,067	Interest in controlled corporation *(Note 3)*	9.21
	4,875,546,570	Having a security interest in shares	52.63
New Silkroad Investment Holdings Limited *(Note 2)*	853,604,067	Beneficial owner *(Note 3)*	9.21
Right Select International Limited *(Note 2)*	4,875,546,570	Having a security interest in shares	52.63
Quick Run Limited *(Note 2)*	4,875,546,570	Having a security interest in shares	52.63

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO *(Continued)*

Notes:

1. Leading Value Industrial Limited and Global Prize Limited are companies wholly owned by Sze Wai, Marco, who is an executive Director.

2. New Silkroad Investment Holdings Limited is wholly owned by China Huarong International Holdings Limited, which is in turn owned by Huarong Zhiyuan Investment & Management Co., Ltd. and Huarong Real Estate Co., Ltd. as to approximately 11.90% and 88.10%, respectively. Each of Huarong Zhiyuan Investment & Management Co., Ltd. and Huarong Real Estate Co., Ltd. is wholly owned by China Huarong Asset Management Co., Ltd.. China Huarong Asset Management Co., Ltd. is owned by the Ministry of Finance of the People's Republic of China as to approximately 77.49%. Quick Run Limited is wholly owned by Right Select International Limited, which is in turn wholly owned by China Huarong International Holdings Limited. Each of China Huarong International Holdings Limited, Huarong Zhiyuan Investment & Management Co., Ltd., Huarong Real Estate Co., Ltd., China Huarong Asset Management Co., Ltd. and the Ministry of Finance of the People's Republic of China is deemed to be interested in the 853,604,067 shares of the Company which New Silkroad Investment Holdings Limited is interested in and the 4,875,546,570 shares of the Company which Quick Run Limited is interest in.

3. These shares were the shares which would be allotted and issued upon exercise in full of the convertible bonds granted to New Silkroad Investment Holdings Limited. Please refer to the announcements of the Company dated 22 June 2016, 5 July 2016, 12 July 2016, 17 August 2016 and 26 August 2016 for further details.

Save as disclosed above, as at 30 June 2018, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section headed "Share Option Schemes" above, at no time during the period was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and compiled with the Code Provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Rules Governing the Listing of securities on the Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2018, except for the following deviations:

1. The Code Provision A.4.1 stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election. Although the Independent Non-executive Directors are not appointed for specific term, they are subject to retirement by rotation at least once every three years in accordance with Article 111(A) of the Company's Bye-Laws.

2. The Code Provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman of the Board, Mr. Sze Wai, Marco was unable to attend the Company's annual general meeting which was held on 1 June 2018 as he had an important engagement that was important to the Company's business. Although he was unable to attend, he had arranged for Mr. Zhou Wei Feng, an Executive Director and Chief Executive Officer of the Company who is well versed in all the business activities and operations of the Group, to attend on his behalf and to chair the meeting and to respond to shareholders' questions.

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 of the Listing Rules, as a Code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

The Audit Committee ("AC") comprises three independent non-executive Directors, Mr. Chong Yiu Kan, Sherman ("Mr. Chong"), Mr. Xie Jun and Mr. Liu Liyang. Mr. Chong takes the chair of the AC. Terms of reference of the audit committee have been updated in compliance with the Code. The AC is responsible to review with management the financial reporting system and provides accounting and financial advice and recommendations to the Board as well as monitor and safeguard the independence of external auditors and relevant auditing matters. Also, the AC is responsible to review and discuss the internal control procedures and risk management systems of the Group with the management.

The AC had reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 prior to the submission to the Board for approval.

BOARD OF DIRECTORS

As at the date hereof, the board of directors of the Company comprises Mr. Sze Wai, Marco, Mr. Tan Shu Jiang and Mr. Zhou Wei Feng as executive Directors, and Ms. Chai Lin as non-executive Director, and Mr. Chong Yiu Kan, Sherman, Mr. Xie Jun and Mr. Liu Liyang as independent non-executive Directors.

By order of the Board
Beautiful China Holdings Company Limited
Sze Wai, Marco
Chairman

Hong Kong, 29 August 2018