大自然家居 Nature

Nature Home

Interim Report 2018

Nature Home Holding Company Limited
大自然家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 2083

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Se Hok Pan *(Chairman and President)*
Ms. Un Son I
Mr. She Jian Bin
Mr. Liang Zhihua

Non-executive Director

Mr. Teoh Chun Ming

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

AUDIT COMMITTEE

Mr. Chan Siu Wing, Raymond *(Chairman)*
Mr. Teoh Chun Ming
Mr. Ho King Fung, Eric

REMUNERATION COMMITTEE

Professor Li Kwok Cheung, Arthur *(Chairman)*
Mr. Teoh Chun Ming
Mr. Ho King Fung, Eric

NOMINATION COMMITTEE

Mr. Se Hok Pan *(Chairman)*
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

CORPORATE GOVERNANCE COMMITTEE

Mr. Se Hok Pan *(Chairman)*
Mr. Ho King Fung, Eric
Mr. Teoh Chun Ming

EXECUTIVE COMMITTEE

Mr. Se Hok Pan *(Chairman)*
Ms. Un Son I

COMPANY SECRETARY

Mr. Lai Kwok Keung, Alex

AUTHORISED REPRESENTATIVES

Mr. Se Hok Pan
Mr. Lai Kwok Keung, Alex

AUDITORS

KPMG

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Shunde Rural Commercial Bank
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2601, 26/F,
Tower 2, The Gateway, Harbour City
Tsim Sha Tsui, Kowloon
Hong Kong

HEAD OFFICE IN THE PRC

8 Longpan West Road
New District
Daliang, Shunde
Foshan City
Guangdong Province
The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

WEBSITE

www.nature-home.com.hk

STOCK CODE

2083

Management Discussion and Analysis

BUSINESS REVIEW

For the period of six months ended 30 June 2018 (the "Period"), the overall economy and the real estate market in the People's Republic of China (the "PRC") maintained their steady growth, together with the continued strong performance in sales of core products (i.e. flooring products) of Nature Home Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group", "we" or "us"), the Group achieved satisfactory growth in total revenue. The total revenue of the Group increased by 22.0% to approximately RMB1,291,663,000 for the Period from approximately RMB1,058,483,000 in the corresponding period of last year with a robust growth in profit.

In respect of our two core businesses, namely, manufacturing and sale of home decoration products as well as provision of trademark and distribution network, the Group recorded an increase in revenue amounts of 26.1% and 20.7% to approximately RMB1,013,043,000 and RMB112,617,000, respectively, while business of trading of home decoration products increased by 2.6% as compared to the corresponding period of last year. In addition, total sales volumes of flooring products for the Period reached 16,800,000 square meters, representing an increase of 17.0% as compared to the corresponding period of last year, of which the total revenue from flooring products in the PRC (arising from manufacturing and sales of flooring products, fees income from authorised flooring products manufacturers and trading of flooring products) increased by 41.8% to approximately RMB1,033,396,000 for the Period when compared with the corresponding period of last year.

1. Manufacturing and sale of home decoration products

The home decoration products manufactured by the Group mainly comprise of floorings, wooden doors, wardrobes, cabinets and wall paper. For the six months ended 30 June 2018, the revenue for the manufacturing and sales of home decoration products of the Group was approximately RMB1,013,043,000 (for the six months ended 30 June 2017: RMB803,382,000), representing an increase of 26.1% which was principally attributable to the rapid growth of sales of the Group's floorings and wooden doors businesses in the PRC. In addition, during the Period, the Group continued to strengthen and optimize the manufacturing allocation and sales network for various home decoration products, and to implement the resource integration and enhance the efficiency and quality with an aim to cope with the customers' further requirements on quality of products and services. At a result, the number and the distribution of stores of the Group was streamlined and enhanced.

The business of manufacturing and sale of flooring products

The revenue of flooring business for the six months ended 30 June 2018 increased by 39% to approximately RMB810,335,000 as compared to the corresponding period of last year as the Group benefited from project delivery cycle. The Group's flooring products mainly include laminated floorings and engineered floorings. In respect of its flooring sales network, the Group has established an extensive sales network in the PRC. The Group is currently a major distributor of a number of renowned foreign brands of flooring products in the PRC. As at 30 June 2018, the total number of flooring stores was 3,159 (31 December 2017: 3,604), of which, there were 2,989 "Nature" stores (31 December 2017: 3,401), and 170 foreign imported brand stores (31 December 2017: 203).

The Group currently owns five production plants for flooring products, which are mainly engaged in the manufacturing of laminated floorings and engineered floorings. In addition, the Group is now constructing two new plants to produce kitchen and bathroom floorings and engineered floorings, so as to meet the need of rapid development of flooring products in the future.

The business of manufacturing and sale of wooden doors

With respect to wooden doors business, the Group launched new water-based paint wooden doors as the key promotion product of the wooden doors business. Compared with traditional paint, the water-based paint is a kind of coating that takes water as its diluent, and is free of organic solvent, non-toxic and non-irritating. The Group recorded improved performance and achieved rapid growth in the wooden doors business during the Period with revenue increasing by 14% to approximately RMB86,734,000 as compared to the corresponding period of last year. As at 30 June 2018, the number of the Group's stores for wooden doors was 539 (31 December 2017: 547) in total. The Group currently owns three wooden door production plants. The new wooden door production plant in Foshan commenced trial production in June 2018. Due to the outstanding performance and the precise positioning of the water-based paint doors products, the operation result of wooden door retailing business has turned from loss into profit.

The business of manufacturing and sale of wardrobes and cabinets

With respect to the business of wardrobes and cabinets, the Group increased the proportion of sales to commercial customers during the Period and the revenue dropped by 15% to approximately RMB69,898,000 for the Period. As at 30 June 2018, the Group owned a total of 106 (31 December 2017: 148) wardrobe and cabinet stores. The Group currently owns two production plants for wardrobe and cabinet products.

Previously, the Group had been the exclusive distributor of "Wellmann", a wardrobe brand in Germany, in the PRC. During the Period, the Group successfully acquired the brand and global trademark of "Wellmann", marked the Group's layout and expansion in foreign brand industry chain. In addition, the Group is also the exclusive distributor of "Tielsa", a high-end wardrobe brand in Germany, in the PRC, and has an exclusive right to use the brand.

The business of manufacturing and sale of wall papers

With respect to the business of wall papers, the revenue for the Period amounted to approximately RMB18,525,000.

2. Provision of Trademark and Distribution Network

The Group's flooring products under the "Nature" brand are manufactured by its own production plants and through its exclusive authorized manufacturers. Such authorized manufacturers only manufacture our branded flooring products and sell these products to the distributors within our distribution network in an exclusive and direct manner, for which we charge them trademark and distribution network usage fees.

As the sales of solid wood, engineered and three-layered flooring products authorised to manufacture increased, during the Period, the revenue generated from trademark and distribution network usage fees increased by 20.7% to approximately RMB112,617,000 from approximately RMB93,328,000 in corresponding period of last year.

3. Trading of home decoration products

The Group's revenue from trading business of home decoration products amounted to approximately RMB166,003,000 for the Period (six months ended 30 June 2017: RMB161,773,000), representing an increase of 2.6% as compared to the corresponding period of last year. The increase was mainly due to the offsetting effect of (i) the Group being no longer engaged in such business upon disposal of its business of timber trading in December 2017; and (ii) the Group's business of flooring products exported to USA is still in the process of rectification; and (iii) the Group's trading business of flooring products in the PRC had a rapid growth.

Prospect

The Group's flagship brand "Nature" has been recognized by consumers as an image of quality and safe products and represents healthy life and environmental protection. Since the starting of our household product strategy of providing integrated green home decoration products, we have formed a strategic layout that various green home decoration product brands, including Nature floorings, Nature wooden doors, Nature Kolani wardrobes and cabinets and Geko wallpaper, run together with "Nature" as a leading brand.

In terms of products, the Group will launch a new series of personalized flooring products and innovative kitchen and bathroom flooring products for the young target customers. In addition, upholding the concept of health and environmental protection, the Group is committed to developing and promoting high-quality and safe products, such as the zero-aldehyde-emission underfloor heating flooring products and water-based paint door products, while the Group also participated in the development of industry standards for wooden door products, integrating the idea of providing environment-friendly and safe products into our business model. The Group will stick to its philosophy of "Take Environment Responsibility and Promote a Healthy Life Style" on a sustainable path.

In terms of sales network, the Group will continue to optimize sales network and develop home decoration services, providing customers with one-stop home decoration services covering design, construction, home decoration and home appliance configuration, as a platform and channel to directly promote the sales of our home decoration products.

In addition, on 23 April 2018, DeHua TB New Decoration Material Co., Ltd ("TB"), a company listed on Shenzhen Stock Exchange in the PRC, announced that it intended to acquire 269,999,990 shares of the Company at a premium of approximately 49% over the closing price as at the announcement date. On 24 July 2018, TB announced that the acquisition was completed and it became the second largest shareholder of the Company. As at the date of this report, TB holds 18.63% of the entire issued shares of the Company. With the purpose of and subject to improving synergy effects, we will enhance our communication with TB and seek potential opportunities for business cooperation.

Under the background of escalating global trade disputes in recent months, we expect home decoration product market will be subject to various uncertainties in the short term. However, we believe the percentage of low income housing and finished houses in the market will further increase, and with over 400 million existing homes in the PRC, it brings more needs for refurbishment in the future. In light of our continued business growth attributable to the further improvement of China's consumption and our established brand and sales network, we are optimistic towards future development, and in particular long-term development. We will strive to seize different opportunities to expand our market share, sustain our leading position in the flooring product industry and continue to explore markets of other home decoration products so as to create more value for our shareholders.

FINANCIAL REVIEW

Revenue

For the Period, we generate revenue from three business segments: (1) manufacturing and sale of home decoration products; (2) provision of trademark and distribution network; and (3) trading of home decoration products.

"Manufacturing and sale of home decoration products" represents the revenue generated from the sales of laminated flooring, engineered flooring, wall decoration products and other wood products, including wooden doors, wardrobes and cabinets, that we manufacture at our own factories, and are measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

"Provision of trademark and distribution network" represents the fees for which we charge authorised manufacturers in connection with their rights to label all the products they manufacture with our trademark brands and sell those products exclusively and directly to the distributors in our distribution network. The fees are charged with reference to the sales volume and sales amounts of our branded flooring products.

"Trading of home decoration products" represents the revenue generated from the trading of home decoration products.

Set forth below is the revenues generated from each business segment for the periods indicated:

	For the six months ended 30 June				
	2018		2017		
Revenue	**RMB'000**	**% of total revenue**	RMB'000	% of total revenue	Revenue Growth rate %
Manufacturing and sale of home decoration products	**1,013,043**	**78.4**	803,382	75.9	26.1
Provision of trademark and distribution network	**112,617**	**8.7**	93,328	8.8	20.7
Trading of home decoration products	**166,003**	**12.9**	161,773	15.3	2.6
Total	**1,291,663**	**100.0**	1,058,483	100.0	22.0

For the Period, the Group generated revenues of approximately RMB1,291,663,000, representing an increase of 22.0%, as compared with approximately RMB1,058,483,000 for the corresponding period of 2017.

Revenue from manufacturing and sale of home decoration products increased by 26.1% to approximately RMB1,013,043,000 for the Period compared to approximately RMB803,382,000 for the corresponding period of 2017. It was mainly attributable to strong growth of the flooring business in the PRC.

Revenue from provision of trademark and distribution network increased by 20.7% to approximately RMB112,617,000 for the Period compared to approximately RMB93,328,000 for the corresponding period of 2017. It was mainly attributable to the increase in demand for solid wood and engineered flooring products manufactured by authorised manufacturers.

Revenue from trading of home decoration products increased by 2.6% to approximately RMB166,003,000 for the Period compared to approximately RMB161,773,000 for the corresponding period of 2017. It was mainly due to the offsetting effect of (i) cessation of the non-core business of trading of timbers in the PRC and France since 1 December 2017; (ii) decrease in trading of exported flooring products; (iii) a rapid growth in trading of home decoration products in the PRC.

Cost of Sales and Gross Profit

Cost of sales for manufacturing and sale of home decoration products consists primarily of raw materials costs, labour costs and overhead costs. The major raw materials used in our own manufacturing activities are timber, veneers, fiberboards and plywood. Labour costs consist of salaries, wages and other benefits we paid to our production staff. Overhead costs primarily include utilities and depreciation.

Cost of sales for provision of trademark and distribution network consists primarily of the labour costs and travelling expenses relating to our representatives who provide authorised manufacturers with onsite technical and logistics support and conduct quality control measures on their products.

Cost of sales for trading of home decoration products consists primarily of the cost of home decoration products for trading.

Set forth below is the gross profit for each business segment for the periods indicated:

	For the six months ended 30 June				
	2018		2017		Growth rate
Gross Profit	RMB'000	GP %	RMB'000	GP %	%
Manufacturing and sale of home decoration products	**270,115**	**26.7**	196,912	24.5	37.2
Provision of trademark and distribution network	**108,557**	**96.4**	90,823	97.3	19.5
Trading of home decoration products	**34,253**	**20.6**	22,530	13.9	52.0
Total	**412,925**	**32.0**	310,265	29.3	33.1
EBITDA	**152,350**	**11.8**	91,292	8.6	66.9

For the Period, the overall gross profit increased by 33.1% to approximately RMB412,925,000 compared to approximately RMB310,265,000 for the corresponding period of 2017 and the gross profit margin increased to 32.0% for the Period from 29.3% for the corresponding period of 2017.

The segment of manufacturing and sale of home decoration products contributed a gross profit of approximately RMB270,115,000 for the Period, representing an increase of 37.2%, compared to approximately RMB196,912,000 for the corresponding period of 2017. The gross profit margin for the Period was 26.7% compared to 24.5% for the corresponding period of 2017. It was mainly attributable to the increase in the proportion of flooring products during the Period.

The segment of provision of trademark and distribution network contributed a gross profit of approximately RMB108,557,000 for the Period, representing an increase of 19.5%, compared to approximately RMB90,823,000 for the corresponding period of 2017. The increase was in line with the increase in revenue of this segment. The gross profit margin for the Period was 96.4% compared to 97.3% for the corresponding period of 2017.

The segment of trading of home decoration products contributed a gross profit of approximately RMB34,253,000 for the Period, representing an increase of 52.0%, compared to approximately RMB22,530,000 for the corresponding period of 2017. The gross profit margin was 20.6% for the Period compared to a gross profit margin of 13.9% for the corresponding period of 2017. It was mainly attributable to the increase in the proportion of flooring trading business in the PRC during the Period.

For the Period, the EBITDA increased by 66.9% to approximately RMB152,350,000 compared to approximately RMB91,292,000 for the corresponding period of 2017 and the EBITDA margin increased to 11.8% from 8.6% for the corresponding period of 2017.

EBITDA is defined as profit before net finance costs, income tax, depreciation and amortisation.

Other Income

Other income consists primarily of rental income from operating leases and government grants which are subject to the discretion of the relevant authorities. Other income decreased to approximately RMB13,024,000 for the Period, compared to approximately RMB33,862,000 for the corresponding period of 2017. It was primarily due to a one-off net unrealised gain on convertible notes and warrants for the corresponding the period of 2017.

Distribution Costs

Distribution costs consist primarily of advertising and promotion expenses, transportation and storage fees, staff costs, travelling expenses, decoration allowance to distributors and other miscellaneous expenses.

Distribution costs were approximately RMB165,783,000 for the Period, representing a decrease of approximately 3.1%, compared to approximately RMB171,134,000 for the corresponding period of 2017. It was primarily due to the net effect of increase in advertising and promotion expenses, transportation and storage fees, and decrease in decoration allowance to distributors and traveling expenses.

The percentage of distribution costs to revenue was 12.8% compared to 16.2% for the corresponding period of 2017.

Administrative Expenses

Administrative expenses consist primarily of staff costs, audit, legal and consulting fees, depreciation and amortization expenses, operating lease charges, travelling expenses and other miscellaneous expenses.

Administrative expenses were approximately RMB145,730,000 for the Period, representing an increase of approximately 32.9%, compared to approximately RMB109,647,000 for the corresponding period of 2017. It was primarily due to increase in staff costs, research and development costs, and allowance for doubtful debts resulted from changes in accounting policies (see note 2(b)(ii)).

The percentage of administrative expenses to revenue was 11.3% compared to 10.4% for the corresponding period of 2017.

Other Operating Expenses

Other operating expenses decreased to approximately RMB3,033,000 for the Period, compared to approximately RMB18,903,000 for the corresponding period of 2017. Other operating expenses for the corresponding period of 2017 included a one-off impairment loss of available-for-sale equity securities.

Net Finance Costs

Net finance costs represent the difference between finance income and finance costs. Finance income consists primarily of interest income on bank deposits. Finance costs consist primarily of interest expenses on bank loans and net foreign exchange loss.

Finance income increased by 41.5% to approximately RMB7,351,000 for the Period compared to approximately RMB5,196,000 for the corresponding period of 2017. It was primarily due to the increase in interest income.

Finance costs increased by 44.1% to approximately RMB22,854,000 for the Period as compared to approximately RMB15,855,000 for the corresponding period of 2017. It was mainly due to the increase in net foreign exchange loss.

Income Tax

Income tax represents the combination of our current income tax and deferred income tax.

Income tax was approximately RMB24,417,000 for the Period compared to approximately RMB22,370,000 for the corresponding period of 2017, which was the total effect of the current income tax of approximately RMB31,183,000 and the net deferred tax income of approximately RMB6,766,000. The increase in income tax was mainly due to increase in profit of our PRC operations during the Period.

Profit Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, the profit attributable to equity shareholders of the Company was approximately RMB74,751,000 for the Period, compared to approximately RMB16,459,000 for the corresponding period of 2017.

LIQUIDITY

Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations and (ii) proceeds from loans and borrowings. During the Period, the Group generated net cash inflow of approximately RMB89,106,000 from operating activities (six months ended 30 June 2017: RMB100,097,000) and used cash to repay net bank loans of approximately RMB100,827,000 (six months ended 30 June 2017: net increase in bank loans of RMB30,195,000).

Net Current Assets and Working Capital Sufficiency

As at 30 June 2018, net current assets was approximately RMB1,156,086,000, representing an increase of 1.9%, compared to approximately RMB1,134,778,000 as at 31 December 2017. The current ratios as at 30 June 2018 and 31 December 2017 were 1.7 and 1.7 respectively.

Trade and Bills Receivables and Contract Assets

As at 30 June 2018, trade and bills receivables and contract assets increased by 4.2% to approximately RMB1,229,793,000 compared to approximately RMB1,180,388,000 as at 31 December 2017.

FINANCIAL RESOURCES

The following table presents our adjusted gearing ratio of the Group as at the dates indicated.

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Bills payables	272,410	200,900
Bank and other loans: current	570,627	665,361
non-current	106,905	103,900
Sub-total	949,942	970,161
Less: Cash and cash equivalents	612,923	749,862
Pledged and restricted deposits	243,794	241,921
Adjusted net debts/(assets)	93,225	(21,622)
Total equity	2,222,233	2,180,679
Adjusted gearing ratios	0.04	(0.01)

Our adjusted gearing ratios, which are derived by dividing adjusted net debts/(assets) by total equity of the Group, were 0.04 and negative 0.01 as at 30 June 2018 and 31 December 2017, respectively.

Adjusted net debts/(assets) is defined as total debts which include bills payables and interest bearing loans, less cash and cash equivalents and pledged and restricted deposits.

Bank and Other Loans

(a) At 30 June 2018, the bank and other loans were repayable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year or on demand	**570,627**	665,361
After 2 years but within 5 years	**106,905**	103,900
Total	**677,532**	769,261

At 30 June 2018, the bank and other loans were secured as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank loans (i)		
— Secured	**523,370**	712,595
— Unsecured	**98,612**	56,666
Sub-total	**621,982**	769,261
Other loans — secured (ii)	**55,550**	—
	677,532	769,261

(i) At 30 June 2018, the Group has secured bank loans and borrowings amounting to approximately RMB523,370,000 (31 December 2017: RMB712,595,000), of which:

- RMB106,905,000 (31 December 2017: RMB123,400,000) of these loans were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantees; and
- RMB416,465,000 (31 December 2017: RMB589,195,000) of the Group were solely secured by assets of the Group.

These third party guarantors are minority shareholders of a subsidiary of the Company.

(ii) At 30 June 2018, RMB55,550,000 was borrowed from a financial leasing company and secured by other property, plant and equipment with net book value of RMB23,994,000.

(iii) The pledged assets of the Group are as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Restricted deposits	**116,000**	116,000
Other property, plant and equipment	**86,711**	149,008
Lease prepayments	**66,244**	75,821
Trade and bills receivables	**229,500**	481,309
	498,455	822,138

(iv) Parts of the Group's banking facilities, amounted to RMB590,405,000 (31 December 2017: RMB610,502,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 30 June 2018 and 31 December 2017, none of the covenants relating to drawn down facilities had been breached.

(v) The unutilised banking facilities as at 30 June 2018 amounted to RMB385,981,000 (31 December 2017: RMB281,717,000).

(b) The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

	As at 30 June 2018		As at 31 December 2017	
	Effective interest rate %	**Carrying amount RMB'000**	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	**5.01**	**347,532**	4.23	305,452
Fixed rate instruments				
Bank and other loans	**5.16**	**330,000**	5.48	463,809
Total borrowings		**677,532**		769,261
Fixed rate borrowings as a percentage of total borrowings		**49%**		60%

CAPITAL EXPENDITURES

Capital expenditures amounted to RMB97,802,000 for the Period (six months ended 30 June 2017: RMB43,752,000). It primarily related to purchases of property, plant and equipment.

COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital Commitments

Capital commitments outstanding at the end of reporting period not provided for in the interim financial information were as follows:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Contracted for	**30,209**	41,732

(b) Operating Lease Commitments

At the end of the reporting period, the total future minimum lease payments under operating leases are as follows:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Within 1 year	**28,735**	20,232
After 1 year but within 3 years	**19,950**	13,976
After 3 years but within 5 years	**2,063**	1,993
After 5 years	**3,008**	3,640
	53,756	39,841

FOREIGN CURRENCY RISK

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), United States Dollars ("USD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol, Euro ("EUR") and British Pounds. On the other hand, our bank loans, cash and cash equivalents are primarily denominated in RMB, USD, EUR and Hong Kong Dollars ("HK$"). The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

EMPLOYEES

As at 30 June 2018, the Group had 3,145 employees (at 31 December 2017: 3,124). Relevant staff cost was approximately RMB151,430,000 (including share award scheme expenses of approximately RMB3,605,000) for the Period compared to approximately RMB135,060,000 (including share option schemes and share award scheme expenses of approximately RMB5,599,000) for the corresponding period of 2017. The Group will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, share option schemes and share award scheme.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES OR JOINT VENTURES

The Group did not have any material acquisition or disposal of subsidiaries, associated companies or joint ventures for the Period.

SUBSEQUENT EVENTS

No significant events took place subsequent to 30 June 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS

There was no specific plan for material investments and acquisition of material capital assets as at 30 June 2018.

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 or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Director	Number of shares held Personal Interest	Corporate Interest	Total	Percentage of shareholding (Note 1)
Mr. Se Hok Pan *(Chairman and President)*	20,000,000 1,500,000 (Note 2) 21,500,000	678,768,000 (Note 3)	700,268,000	47.69%
Ms. Un Son I	1,500,000 (Note 2)	678,768,000 (Note 3)	680,268,000	46.33%
Mr. She Jian Bin	1,500,000 (Note 2) 1,500,000 (Note 4) 3,000,000	Nil	3,000,000	0.20%
Mr. Liang Zhihua	22,576,780 (Note 2) 2,500,000 (Note 4) 25,076,780	Nil	25,076,780	1.71%
Mr. Teoh Chun Ming	4,677,900 (Note 2)	Nil	4,677,900	0.32%
Professor Li Kwok Cheung, Arthur	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Chan Siu Wing, Raymond	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Ho King Fung, Eric	1,000,000 (Note 2)	Nil	1,000,000	0.07%

Notes:

1. Based on 1,468,237,990 shares of the Company in issue as at 30 June 2018.

2. These interests represent the share options granted to the directors of the Company pursuant to the terms of the share option schemes adopted by the Company, which entitle them to subscribe for shares of the Company. Details of such options are disclosed under the paragraph headed "Share Option Schemes" below.

3. 678,768,000 shares are owned by Freewings Development Co., Ltd.. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.

4. These interests represent the award shares granted to the directors of the Company pursuant to the terms of the share award scheme adopted by the Company. Details of such award shares are disclosed under the paragraph headed "Share Award Scheme" below.

5. All interests stated are long positions.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	**Capacity and nature of interest**	**Number of shares held**		**Percentage of shares in issue**
		Long position	**Short position**	(Note 1)
Freewings Development Co., Ltd.	Beneficial owner	678,768,000	—	46.23%
Team One Investments Limited (Note 2)	Interest in controlled corporations	678,768,000	—	46.23%
Trader World Limited (Note 2)	Interest in controlled corporations	678,768,000	—	46.23%
North Haven Flooring Holding Co., Ltd. (Note 3)	Beneficial owner	269,999,990	269,999,990 (Note 5)	18.39%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. (Note 3)	Interest in controlled corporations	269,999,990	269,999,990 (Note 5)	18.39%
Morgan Stanley Private Equity Asia III, Inc. (Note 3)	Interest in controlled corporations	269,999,990	269,999,990 (Note 5)	18.39%
Morgan Stanley Private Equity Asia III, L.L.C. (Note 3)	Interest in controlled corporations	269,999,990	269,999,990 (Note 5)	18.39%
North Haven Private Equity Asia III, L.P. (Note 3)	Interest in controlled corporations	269,999,990	269,999,990 (Note 5)	18.39%
MS Holdings Incorporated (Note 3)	Interest in controlled corporations	269,999,990	269,999,990 (Note 5)	18.39%
Morgan Stanley (Note 3)	Interest in controlled corporations	270,030,990	269,999,990 (Note 5)	18.39%
DeHua TB New Decoration Material Co,. Ltd (Note 4)	Beneficial owner	269,999,990 (Note 5)	—	18.39%
Weng Hou Investment Company Limited	Beneficial owner	76,300,000	—	5.20%

Notes:

1. Based on 1,468,237,990 shares of the Company in issue as at 30 June 2018.

2. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Mr. Se Hok Pan and Ms. Un Son I are directors of Freewings Development Co., Ltd..

3. North Haven Flooring Holding Co., Ltd. is an exempted company incorporated in the Cayman Islands, and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd.. Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is North Haven Private Equity Asia III, L.P., a fund managed by the private equity arm of Morgan Stanley. The general partner of North Haven Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is a direct wholly-owned subsidiary of MS Holdings Incorporated, a Delaware corporation and which is a direct wholly-owned subsidiary of Morgan Stanley.

4. DeHua TB New Decoration Material Co., Ltd is a company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange.

5. According to the announcement of DeHua TB New Decoration Material Co., Ltd ("DeHua TB") dated 24 April 2018, DeHua TB entered into a sale and purchaser agreement with North Haven Flooring Holding Co., Ltd, pursuant to which DeHua TB agreed to purchase and North Haven Flooring Holding Co., Ltd agreed to sell 269,999,990 shares of the Company (the "Transaction"). According to the announcement of Dehua TB dated 18 July 2018, the Transaction was completed on 18 July 2018.

Save as disclosed above, the Directors are not aware that there is any party who, as at 30 June 2018, had interests or short positions in the shares and 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 recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

RIGHTS TO ACQUIRE COMPANY'S SECURITIES

Other than as disclosed under the section headed "Share Option Schemes" below, at no time during the period was the Company or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

On 16 December 2008, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The rules of the Pre-IPO Share Option Scheme were subsequently amended pursuant to a written resolution passed by our then shareholders on 30 June 2010 and a written resolution of the Board on 26 April 2011. The purpose of the Pre-IPO Scheme Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons of the Pre-IPO Share Option Scheme include all employees (full-time or part-time) of the Company or any of its subsidiaries or investee companies.

Subject to the satisfactory performance of the participants of the Pre-IPO Share Option Scheme, the options granted to each of the participants shall be vested in accordance with the following schedule:

For the options granted on 17 December 2008

Vesting period	Maximum cumulative percentage of options vested
30 December 2008	10%
30 December 2009	20%
30 December of the year of the date of listing i.e. 26 May 2011 (the "Listing Date")	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

For the options granted on 1 July 2010

Vesting period	Maximum cumulative percentage of options vested
30 December 2010	20%
30 December of the year of the Listing Date	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

Each option granted under the Pre-IPO Share Option Scheme has a ten-year exercise period provided that none of the options (whether they are vested or not) shall be exercisable before the expiry of 18 months from the Listing Date.

Further details of the principal terms of the Pre-IPO Share Option Scheme are set out in the prospectus of the Company dated 16 May 2011. Details of the share options movements during the six months ended 30 June 2018 under the Pre-IPO Share Option Scheme are as follows:

Category of participants	Date of grant	Exercise period	Exercise price per share	No. of shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of shares involved in the options outstanding at period end
Directors of the Company							
Liang Zhihua	17/12/2008	17/12/2008–16/12/2018	HK$2.35	576,780	—	—	576,780
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	7,000,000	—	—	7,000,000
Teoh Chun Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,677,900	—	—	1,677,900
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	1,500,000	—	—	1,500,000
Former Director of the Company							
Nam Cheung Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,887,640	—	1,887,640	—
Employees							
Employees	17/12/2008	17/12/2008–16/12/2018	HK$2.35	6,917,100	—	859,350	6,057,750
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	3,500,000	—	—	3,500,000
Total				23,059,420	—	2,746,990	20,312,430

Save as disclosed above, no option under the Pre-IPO Share Option Scheme has been granted, cancelled or lapsed during the six months ended 30 June 2018. No further option will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

Share Option Scheme

The Company has also adopted a share option scheme on 3 May 2011 (the "Share Option Scheme"). The rules of the Share Option Scheme were subsequently amended pursuant to a resolution of the Board on 28 November 2011. The purpose of the Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons under the Share Option Scheme include, among others, employees, directors, customers, business or joint venture partners, advisors, consultant, contractor, suppliers, agents or service providers of the Group and their respective full-time employees.

Further details of the principal terms of the Share Option Scheme are set out in the prospectus of the Company dated 16 May 2011.

Details of the share options movements during the six months ended 30 June 2018 under the Share Option Scheme are as follows:

Category of participants	Date of Grant	No. of shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of shares involved in the options outstanding at period end
Directors of the Company					
Se Hok Pan	4 January 2012	1,500,000	—	—	1,500,000
Un Son I	4 January 2012	1,500,000	—	—	1,500,000
She Jian Bin	4 January 2012	1,500,000	—	—	1,500,000
Liang Zhihua	4 January 2012	15,000,000	—	—	15,000,000
Teoh Chun Ming	4 January 2012	1,500,000	—	—	1,500,000
Li Kwok Cheung, Arthur	4 January 2012	1,000,000	—	—	1,000,000
Zhang Sen Lin (Note 1)	4 January 2012	1,000,000	—	1,000,000	—
Chan Siu Wing, Raymond	4 January 2012	1,000,000	—	—	1,000,000
Ho King Fung, Eric	4 January 2012	1,000,000	—	—	1,000,000
Employees					
Employees	4 January 2012	43,000,000	—	2,200,000	40,800,000
	8 October 2013	15,400,000	—	1,200,000	14,200,000
Total		83,400,000	—	4,400,000	79,000,000

Notes:

1. As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

2. For options granted on 4 January 2012, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK$1.45 per share.

3. For options granted on 8 October 2013, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK$1.61 per share.

Save as disclosed above, no option under the Share Option Scheme has been granted, cancelled or lapsed during the six months ended 30 June 2018.

SHARE AWARD SCHEME

On 25 April 2016, the Board resolved to adopt a share award scheme (the "Share Award Scheme") as a means to recognise the contribution of and provide incentives to the key management personnel including directors, senior management and core employees of the Group. The Share Award Scheme shall be valid and effective for a period of 4 years commencing from 25 April 2016 and is administrated by the Board and the trustee of the Share Award Scheme (the "Trustee").

The shares to be awarded under the Share Award Scheme shall be acquired by the Trustee from the open market out of cash contributed by the Group and shall be held in trust for the relevant selected participants until such shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

The Board shall not make any further award of award shares which will result in the aggregate number of award shares awarded by the Board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time and shall not award more than 1% of the total number of issued shares of the Company to each of the selected participants from time to time.

The Board may, from time to time, in its absolute discretion select the selected participants after taking into various factors as they deem appropriate and determine the number of award shares to be awarded to each of the selected participants at nil consideration.

Further details of the principal terms of the Share Award Scheme are set out in the announcement of the Company dated 25 April 2016.

The award shares are held on trust for the selected participants by the Trustee which shall, at the option of selected participants, (i) transfer the award shares to the selected participants at nil consideration, or (ii) sell the award shares and pay the proceeds from selling in cash to the selected participant, as the case may be, upon satisfaction of certain vesting criteria and conditions as determined by the Board.

Details of the award shares outstanding and movements during the six months ended 30 June 2018 under the Share Award Scheme are set out as follows:

			Number of Award Shares				
Category of participant	**Date of Grant**	**Vesting Date**	**Outstanding at the beginning of the period**	**Granted during the period**	**Lapsed during the period**	**Vested during the period**	**Outstanding at the end of the period**
Directors of the Company							
She Jian Bin	25 April 2016	31 March 2019 (Note)	1,500,000	–	–	–	1,500,000
Liang Zhihua	25 April 2016	31 March 2019 (Note)	2,500,000	–	–	–	2,500,000
Employees							
Employees	25 April 2016	(i) 50% on 31 March 2018; and (ii) 50% on 31 March 2019	22,790,000	–	–	11,395,000	11,395,000
Total			26,790,000	–	–	11,395,000	15,395,000

Note: On 30 March 2018, the Company entered into a revised award letter with each of Mr. Liang Zhihua and Mr. She Jian Bin, pursuant to which the Company and each of Mr. Liang and Mr. She have agreed to amend the vesting schedule of their respective award shares such that 100% of the award shares shall be vested on 31 March 2019. For details, please refer to the announcement of the Company dated 2 April 2018.

Save as disclosed above, no award shares have been granted, cancelled or lapsed during the six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Period, save as disclosed below, the Company has complied with the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "Code"), except for a deviation from the code provision A.2.1 which requires that the roles of chairman and chief executives should not be performed by the same individual.

On 1 February 2018, the Company announced that, with effect from the same date, Mr. Liang Zhihua ceased to be the President of the Company and Mr. Se Hok Pan was appointed the President of the Company. Mr. Se is the Chairman and an executive director of the Company. Following the appointment of Mr. Se as the President of the Company, the roles of Chairman and President of the Company are performed by Mr. Se and Mr. Se is responsible for formulating overall strategic planning and business development of the Group and effective functioning of the Board as well as day-to-day management of the Group's operation and overseeing the Group's business. As such, since the appointment of Mr. Se as the President of the Company on 1 February 2018, the Company has deviated from the code provision A.2.1 under the Code which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Se is a co-founder of the Group and was appointed as a director of the Company on 27 July 2007. Mr. Se is instrumental to the Group's growth and business expansion since its establishment in 2004. The Company believes that the combination of the roles of Chairman and President can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business development opportunities efficiently. The Company believes that through the supervision of the Board and its independent non-executive Directors, sufficient safeguards are in place to ensure balance of powers within the Board so that the interests of the shareholders of the Company are adequately and fairly represented.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Audit Committee consists of the following members:

Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond *(Chairman)*
Mr. Ho King Fung, Eric

Non-executive Director

Mr. Teoh Chun Ming

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial controls, internal control and risk management systems, to review and monitor the effectiveness of the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed and discussed the interim results for the six months ended 30 June 2018 and this report.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Remuneration Committee consists of the following members:

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur *(Chairman)*
Mr. Ho King Fung, Eric

Non-executive Director

Mr. Teoh Chun Ming

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(i) of the Code in its terms of reference. It will determine, with delegated responsibilities, the remuneration packages of individual executive Directors and senior management. The other principal responsibilities of the Remuneration Committee include (i) making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, (ii) making recommendations to the Board on the remuneration of the non-executive directors; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Nomination Committee consists of the following members:

Executive Director

Mr. Se Hok Pan *(Chairman)*

Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

The principal responsibilities of the Nomination Committee include, among other things, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive directors.

CORPORATE GOVERNANCE COMMITTEE

The Company has established a corporate governance committee (the "Corporate Governance Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Corporate Governance Committee consists of the following members:

Executive Director

Mr. Se Hok Pan *(Chairman)*

Non-executive Director

Mr. Teoh Chun Ming

Independent Non-executive Director

Mr. Ho King Fung, Eric

The primary responsibilities of the Corporate Governance Committee include, among other things, developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Code.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the Period, the Company repurchased a total 12,856,000 shares of the Company on the Stock Exchange at an aggregate consideration of HK$19,873,769 pursuant to the share repurchase mandate approved by the shareholders of the Company at the annual general meeting held on 31 May 2017. Details of the repurchases are summarised as follows:

Date of repurchase	Price per share Highest	Price per share Lowest	Number of ordinary shares of USD0.001 each	Total consideration
	HK$	HK$		HK$
14 May 2018	1.49	1.43	1,000,000	1,479,810
15 May 2018	1.49	1.48	500,000	744,650
17 May 2018	1.51	1.50	1,000,000	1,507,000
18 May 2018	1.49	1.48	1,000,000	1,488,700
24 May 2018	1.49	1.48	1,000,000	1,490,000
30 May 2018	1.46	1.46	1,000,000	1,460,000
31 May 2018	1.49	1.47	1,000,000	1,481,500
5 June 2018	1.49	1.49	1,000,000	1,490,000
6 June 2018	1.50	1.48	1,000,000	1,488,600
13 June 2018	1.68	1.55	1,396,000	2,284,833
14 June 2018	1.71	1.65	2,000,000	3,371,800
19 June 2018	1.68	1.64	500,000	836,800
28 June 2018	1.65	1.60	460,000	750,076
Total:			12,856,000	19,873,769

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2018.

KPMG

Review report to the board of directors of Nature Home Holding Company Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 29 to 72 which comprises the consolidated statement of financial position of Nature Home Holding Company Limited (the "Company") as of 30 June 2018 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 August 2018

Consolidated Statement of Profit or Loss

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

		Six months ended 30 June	
		2018	2017
			(Note)
	Note	**RMB'000**	RMB'000
Revenue	3	**1,291,663**	1,058,483
Cost of sales		**(878,738)**	(748,218)
Gross profit		**412,925**	310,265
Other income	5(a)	**13,024**	33,862
Distribution costs		**(165,783)**	(171,134)
Administrative expenses		**(145,730)**	(109,647)
Other operating expenses	5(b)	**(3,033)**	(18,903)
Profit from operations		**111,403**	44,443
Finance income		**7,351**	5,196
Finance costs		**(22,854)**	(15,855)
Net finance costs	6(a)	**(15,503)**	(10,659)
Profit before taxation	6	**95,900**	33,784
Income tax	7	**(24,417)**	(22,370)
Profit for the period		**71,483**	11,414
Attributable to:			
Equity shareholders of the Company		**74,751**	16,459
Non-controlling interests		**(3,268)**	(5,045)
Profit for the period		**71,483**	11,414
Earnings per share (RMB):	8		
Basic and diluted		**0.052**	0.011

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 37 to 72 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 18 (a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Note	Six months ended 30 June 2018 RMB'000	2017 (Note (i)) RMB'000
Profit for the period		**71,483**	11,414
Other comprehensive income for the period (after tax and reclassification adjustments)	9		
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (non-recycling)		**(11,982)**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of the financial statements of entities not using RMB as functional currency		**(518)**	(4,340)
Available-for-sale securities: net movement in fair value reserve (recycling) (Note (ii))		**—**	2,164
Other comprehensive income for the period		**(12,500)**	(2,176)
Total comprehensive income for the period		**58,983**	9,238
Attributable to:			
Equity shareholders of the Company		**62,104**	14,805
Non-controlling interests		**(3,121)**	(5,567)
Total comprehensive income for the period		**58,983**	9,238

Notes:

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

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

The notes on pages 37 to 72 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2018—unaudited
(Expressed in Renminbi)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current assets			
Investment properties	10	**60,442**	61,337
Other property, plant and equipment	10	**840,209**	809,240
Intangible assets		**14,206**	14,633
Lease prepayments	10	**169,415**	170,948
Interest in associates		**1,631**	1,569
Other financial assets	11	**61,199**	75,376
Deposits, prepayments and other receivables		**16,992**	21,411
Deferred tax assets		**38,327**	30,490
		1,202,421	1,185,004
Current assets			
Inventories		**432,977**	389,089
Trade and bills receivables	12	**1,143,721**	1,180,388
Contract assets		**86,072**	—
Deposits, prepayments and other receivables		**289,244**	255,262
Restricted deposits	13	**243,794**	241,921
Cash and cash equivalents	14	**612,923**	749,862
		2,808,731	2,816,522
Current liabilities			
Trade and bills payables	15	**674,163**	609,164
Contract liabilities		**84,314**	—
Deposits received, accruals and other payables		**296,857**	384,584
Bank and other loans	16	**570,627**	665,361
Current taxation		**26,684**	22,635
		1,652,645	1,681,744
Net current assets		**1,156,086**	1,134,778
Total assets less current liabilities		**2,358,507**	2,319,782

Consolidated Statement of Financial Position (Continued)

At 30 June 2018—unaudited

(Expressed in Renminbi)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current liabilities			
Bank loans	16	**106,905**	103,900
Deferred tax liabilities		**29,369**	35,203
		136,274	139,103
NET ASSETS		**2,222,233**	2,180,679
CAPITAL AND RESERVES			
Share capital		**9,596**	9,596
Reserves		**2,147,878**	2,105,760
Total equity attributable to equity shareholders of the Company		**2,157,474**	2,115,356
Non-controlling interests		**64,759**	65,323
TOTAL EQUITY		**2,222,233**	2,180,679

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 37 to 72 form part of this interim financial report.

Consolidated Statement of Changes in Equity

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

	Attributable to equity shareholders of the Company												
	Share capital RMB'000	Share premium RMB'000	Share held for the Share Award Scheme RMB'000 (Note 17(b))	Capital redemption reserve RMB'000	Statutory surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	9,596	960,406	(31,269)	84	190,536	10,825	14,455	—	76,383	826,091	2,057,107	25,932	2,083,039
Changes in equity for the six months ended 30 June 2017													
Profit for the period	—	—	—	—	—	—	—	—	—	16,459	16,459	(5,045)	11,414
Other comprehensive income	—	—	—	—	—	(3,818)	2,164	—	—	—	(1,654)	(522)	(2,176)
Total comprehensive income	—	—	—	—	—	(3,818)	2,164	—	—	16,459	14,805	(5,567)	9,238
Share options forfeited during the period	—	—	—	—	—	—	—	—	(878)	878	—	—	—
Equity settled Share Award Scheme (note 17(b))	—	—	—	—	—	—	—	—	5,599	—	5,599	—	5,599
Contribution from non-controlling interests holders	—	—	—	—	—	—	—	—	—	—	—	20,490	20,490
Balance at 30 June 2017 and 1 July 2017	9,596	960,406	(31,269)	84	190,536	7,007	16,619	—	81,104	843,428	2,077,511	40,855	2,118,366

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018—unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company												
	Share capital RMB'000	Share premium RMB'000	Share held for the Share Award Scheme RMB'000 (Note 17(b))	Other treasury shares RMB'000	Capital redemption reserve RMB'000	Statutory surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 30 June 2017 and 1 July 2017	9,596	960,406	(31,269)	–	84	190,536	7,007	16,619	–	81,104	843,428	2,077,511	40,855	2,118,366
Changes in equity for the six months ended 31 December 2017														
Profit for the period	–	–	–	–	–	–	–	–	–	–	51,723	51,723	(9,671)	42,052
Other comprehensive income	–	–	–	–	–	–	(18,043)	(77)	–	–	–	(18,120)	539	(17,581)
Total comprehensive income	–	–	–	–	–	–	(18,043)	(77)	–	–	51,723	33,603	(9,132)	24,471
Transfer to statutory surplus reserve	–	–	–	–	–	8,365	–	–	–	–	(8,365)	–	–	–
Share options forfeited during the period	–	–	–	–	–	–	–	–	–	(2,034)	2,034	–	–	–
Equity settled Share Award Scheme (note 17(b))	–	–	–	–	–	–	–	–	–	4,242	–	4,242	–	4,242
Contribution from non-controlling interests holders	–	–	–	–	–	–	–	–	–	–	–	–	32,787	32,787
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	950	950
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(137)	(137)
Share transferred from the Share Award Scheme to other treasury shares	–	–	2,382	(2,382)	–	–	–	–	–	–	–	–	–	–
Balance at 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	16,542	–	83,312	888,820	2,115,356	65,323	2,180,679

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

	Attributable to equity shareholders of the Company													
	Share capital RMB'000	Share premium RMB'000	Share held for the Share Award Scheme RMB'000 (Note 17(b))	Other treasury shares RMB'000	Capital redemption reserve RMB'000	Statutory surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	16,542	–	83,312	888,820	2,115,356	65,323	2,180,679
Impact on initial application of IFRS 9	–	–	–	–	–	–	–	(16,542)	16,542	–	(5,551)	(5,551)	(16)	(5,567)
Adjusted at 1 January 2018	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	–	16,542	83,312	883,269	2,109,805	65,307	2,175,112
Changes in equity for the six months ended 30 June 2018														
Profit for the period	–	–	–	–	–	–	–	–	–	–	74,751	74,751	(3,268)	71,483
Other comprehensive income	–	–	–	–	–	–	(665)	–	(11,982)	–	–	(12,647)	147	(12,500)
Total comprehensive income	–	–	–	–	–	–	(665)	–	(11,982)	–	74,751	62,104	(3,121)	58,983
Share options forfeited during the period ((note 17(a))	–	–	–	–	–	–	–	–	–	(4,404)	4,404	–	–	–
Shares award exercised (note 17(b))	–	(1,722)	12,054	–	–	–	–	–	–	(10,332)	–	–	–	–
Equity-settled share award scheme (note 17(b))	–	–	–	–	–	–	–	–	–	3,605	–	3,605	–	3,605
Purchase of own shares (note 18(b))	–	–	–	(16,211)	–	–	–	–	–	–	–	(16,211)	–	(16,211)
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(1,275)	(1,275)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	(1,829)	(1,829)	1,320	(509)
Contribution from non-controlling interests holders	–	–	–	–	–	–	–	–	–	–	–	–	2,528	2,528
Balance at 30 June 2018	9,596	958,684	(16,833)	(18,593)	84	198,901	(11,701)	–	4,560	72,181	960,595	2,157,474	64,759	2,222,233

The notes on pages 37 to 72 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

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

	Note	Six months ended 30 June 2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Cash generated from operations		**116,240**	128,931
Tax paid		**(27,134)**	(28,834)
Net cash generated from operating activities		**89,106**	100,097
Investing activities			
Payment for the purchase of other property, plant and equipment		**(97,802)**	(43,752)
Other net cash flows generated from/(used in) investing activities		**3,016**	(12,842)
Net cash used in investing activities		**(94,786)**	(56,594)
Financing activities			
Proceeds from bank loans		**339,532**	184,469
Repayment of bank loans		**(440,359)**	(154,274)
Payment on purchase of own shares		**(16,211)**	—
Repayment of capital to a non-controlling interests holder due to liquidation of a subsidiary		**(1,275)**	—
Proceeds of contribution from non-controlling interests holders		**2,528**	20,490
Other net cash flows used in financing activities		**(15,118)**	(23,285)
Net cash (used in)/generated from financing activities		**(130,903)**	27,400
Net (decrease)/increase in cash and cash equivalents		**(136,583)**	70,903
Cash and cash equivalents at 1 January		**749,862**	618,703
Effect of foreign exchanges rates changes		**(356)**	(714)
Cash and cash equivalents at 30 June	14	**612,923**	688,892

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 37 to 72 form part of this interim financial report.

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 31 August 2018.

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

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Nature Home Holding Company Limited (the "Company") and its subsidiaries (together, the "Group") since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on pages 27 to 28.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs 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:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Overview (Continued)

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

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9 and/or IFRS 15:

	At 31 December 2017	**Impact on initial application of IFRS 9** (Note 2(b))	**Impact on initial application of IFRS 15** (Note 2(c))	**At 1 January 2018**
	RMB'000	RMB'000	RMB'000	RMB'000
Contract assets	—	—	29,059	29,059
Trade and bills receivables	1,180,388	(7,377)	(29,059)	1,143,952
Total current assets	**2,816,522**	**(7,377)**	**—**	**2,809,145**
Contract liabilities	—	—	(74,027)	(74,027)
Deposits received, accruals and other payables	(384,584)	—	74,027	(310,557)
Net current assets	**1,134,778**	**(7,377)**	**—**	**1,127,401**
Deferred tax assets	30,490	1,810	—	32,300
Total non-current assets	**1,185,004**	**1,810**	**—**	**1,186,814**
Total assets less current liabilities	**2,319,782**	**(5,567)**	**—**	**2,314,215**
Net assets	**2,180,679**	**(5,567)**	**—**	**2,175,112**
Reserves	(2,105,760)	5,551	—	(2,100,209)
Total equity attributable to equity shareholders of the Company	**(2,115,356)**	**5,551**	**—**	**(2,109,805)**
Non-controlling interests	(65,323)	16	—	(65,307)
Total equity	**(2,180,679)**	**5,567**	**—**	**(2,175,112)**

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation*

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

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

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

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on:	
— financial assets measured at amortised cost	(7,070)
— contract assets	(291)
Related tax	1,810
Net decrease in retained earnings at 1 January 2018	(5,551)
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at fair value through other comprehensive income ("FVOCI")	(16,542)
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	16,542
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests at 1 January 2018	(16)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at fair value through profit or loss ("FVPL"). These supersede IAS 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 IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

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

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

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

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

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

Under IFRS 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.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

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

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

	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets carried at amortised cost				
Trade and bills receivables (note (i))	1,180,388	(29,059)	(7,086)	1,144,243
Contract assets (note (i))	—	29,059	(291)	28,768
	1,180,388	—	(7,377)	1,173,011
Financial assets measured at FVOCI (non-recyclable)				
Equity securities (note (ii))	—	75,376	—	75,376
Financial assets classified as available-for-sale under IAS 39 (notes (ii))	75,376	(75,376)	—	—

Notes:

(i) Trade and bills receivables of RMB29,059,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of IFRS 15 (see note 2(c)).

(ii) Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated all its investment classified as "available-for-sale" at FVOCI (non-recycling), as the investments are held for strategic purposes.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

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

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 IFRS 9.

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

(ii) Credit losses

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

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

— financial assets measured at amortised cost (including cash and cash equivalents, restricted deposits, trade and bills receivables and deposit, prepayments and other receivables);

— contract assets as defined in IFRS 15 (see note 2(c)); and

— lease receivables.

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

Measurement of ECLs

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

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

— fixed-rate financial assets, trade and bills receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable; and

— loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Measurement of ECLs (Continued)

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

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

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Significant increases in credit risk (Continued)

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

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

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

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

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Basis of calculation of interest income on credit-impaired financial assets (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

(ii) Credit losses (Continued)

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB7,377,000, which decreased retained earnings by RMB5,551,000 and non-controlling interests by RMB16,000 and increased gross deferred tax assets by RMB1,810,000 at 1 January 2018.

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

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	98,806
Additional credit loss recognised at 1 January 2018 on:	
— Trade receivables	7,086
— Contract assets recognised on adoption of IFRS 15	291
Loss allowance at 1 January 2018 under IFRS 9	106,183

(iii) Transition

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

There was no impact of transition to IFRS 15 on retained earnings at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 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.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) IFRS 15, *Revenue from contracts with customers* (Continued)

(ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the completion date of legal assignment. The interest is expensed as accrued unless it is eligible to be capitalised under IAS 23, *Borrowing costs*.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

(iii) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to manufacturing and sale of home decoration products contract were presented in the statement of financial position under "trade receivables" or "advanced payments and deposits received from customers", respectively, and the revenue was recognised for the reasons explained in paragraph (i) above.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

a. "Trade and bills receivables" amounting to RMB29,059,000 which were previously included in trade debtors and bills receivables are now included under contract assets; and

b. "Advanced payments and deposits received from customers" amounting to RMB74,027,000, which was previously included in deposits received, accruals and other payables are now included under contract liabilities.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

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

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

3 REVENUE AND SEGMENT REPORTING

The Group manages its business by different lines of businesses and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Manufacturing and sale of home decoration products: this segment manufactures and sells home decoration products.

— Provision of trademark and distribution network: this segment generates fees income from products manufactured by authorised manufacturers which sell products under the Group's trademarks and distribution network.

— Trading of home decoration products: this segment trades home decoration products.

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2018	2017 (Note)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service line		
— Manufacturing and sale of home decoration products	1,013,043	803,382
— Provision of trademark and distribution network	112,617	93,328
— Trading of home decoration products	166,003	161,773
	1,291,663	1,058,483
Disaggregated by geographic location of customers		
— The PRC, Hong Kong and Macau	1,256,056	1,016,097
— Peru	1,213	925
— United States of America ("USA")	34,394	41,461
	1,291,663	1,058,483

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues for the six months ended 30 June 2018 (six months ended 30 June 2017: one). For the six month ended 30 June 2018, revenues from sales of home decoration products to this customer amounted to approximately RMB281,576,000 (six months ended 30 June 2017: RMB195,585,000) and arose only in the PRC by geographical region in which the home decoration products division is active.

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Manufacturing and sale of home decoration products		Provision of trademark and distribution network		Trading of home decoration products		Total	
For the six months ended 30 June	**2018**	2017 (Note)	**2018**	2017 (Note)	**2018**	2017 (Note)	**2018**	2017 (Note)
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Disaggregated by timing or revenue recognition								
Point in time	**768,415**	803,382	**–**	–	**166,003**	161,773	**934,418**	965,155
Over time	**244,628**	–	**112,617**	93,328	**–**	–	**357,245**	93,328
Revenue from external customers	**1,013,043**	803,382	**112,617**	93,328	**166,003**	161,773	**1,291,663**	1,058,483
Inter-segment revenue	**3,986**	5,943	**–**	–	**64,488**	–	**68,474**	5,943
Reportable segment revenue	**1,017,029**	809,325	**112,617**	93,328	**230,491**	161,773	**1,360,137**	1,064,426
Reportable segment gross profit	**270,115**	196,912	**108,557**	90,823	**34,253**	22,530	**412,925**	310,265
As at 30 June/31 December								
Reportable segment assets	**3,015,070**	2,695,093	**104,704**	108,601	**710,973**	703,884	**3,830,747**	3,507,578
Additions to non-current segment assets during the period	**62,170**	46,365	**–**	–	**372**	1,590	**62,542**	47,955
Reportable segment liabilities	**1,120,737**	1,025,137	**–**	–	**1,391,094**	1,424,569	**2,511,831**	2,449,706

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

3 REVENUE AND SEGMENT REPORTING (Continued)

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**1,360,137**	1,064,426
Elimination of inter-segment revenue	**(68,474)**	(5,943)
Consolidated revenue	**1,291,663**	1,058,483
Reportable segment gross profit	**412,925**	310,265

4 SEASONALITY OF OPERATIONS

The Group's principal activities of selling home decoration products, on average experiences 20-30% higher sales in the fourth quarter and 40-50% lower sales in the first quarter, compared to average quarter sales in the year, due to the increased demand in home decoration market before year end and decreased demand during the long Spring Festival holiday period. The Group anticipates this demand by increasing its production to build up inventories during the second half of the year. As a result, the Group typically reports lower revenues and segment results for the first half of the year, than the second half.

For the twelve months ended 30 June 2018, the Group reported revenue of RMB2,783,826,000 (twelve months ended 30 June 2017: RMB2,515,137,000), and gross profit of RMB879,343,000 (twelve months ended 30 June 2017: RMB708,302,000).

5 OTHER INCOME/OTHER OPERATING EXPENSES

(a) Other income

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Government grants (i)	6,291	7,192
Rental income from operating leases		
— investment properties (note 10)	163	476
— machineries (note 10)	3,238	6,260
Net unrealised gains on convertible notes and warrants	—	18,628
Others	3,332	1,306
	13,024	33,862

(i) Government grants for the six months ended 30 June 2018 mainly represented unconditional cash awards and free lease granted by the government authorities in the PRC.

(b) Other operating expenses

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Impairment losses of available-for-sale equity securities	—	13,541
Net unrealised loss on the share call option	—	2,096
Net loss on disposal of other property, plant and equipment	826	516
Donations	1,164	1,170
Others	1,043	1,580
	3,033	18,903

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance income and finance costs

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest income on bank deposits	**(7,351)**	(5,196)
Finance income	**(7,351)**	(5,196)
Interest expense on bank loans	**15,995**	15,205
Less: interest expense capitalised into construction in progress*	**(2,750)**	(2,570)
	13,245	12,635
Net foreign exchange loss	**9,609**	3,220
Finance costs	**22,854**	15,855
Net finance costs recognised in profit or loss	**15,503**	10,659

* The borrowing costs have been capitalised at a rate of 5.880–6.370% per annum for the six months ended 30 June 2018 and 2017.

6 PROFIT BEFORE TAXATION (Continued)

(b) Other items

		Six months ended 30 June	
		2018	2017 (Note)
	Note	RMB'000	RMB'000
Net impairment losses			
— Trade and bills receivables and contract assets		**16,893**	11,020
— Deposits, prepayments and other receivables		**16,103**	—
Depreciation		**37,419**	43,966
Amortisation		**3,528**	2,883
Research and development costs (other than depreciation and amortisation)		**7,552**	7,024
Inventory write-down and losses net of reversals		**9,823**	25,626
Operating lease charges: minimum lease payments		**10,713**	11,983
Share Award Scheme	17(b)	**3,605**	5,599

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

7 INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax		
Provision for income tax		
— in the PRC	**36,406**	24,950
(Over-provision)/under-provision in respect of prior years	**(5,223)**	582
	31,183	25,532
Deferred tax		
Origination and reversal of temporary differences	**(6,766)**	(3,162)
	24,417	22,370

7 INCOME TAX (Continued)

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The Group's subsidiaries incorporated in the USA were subject to federal income tax at progressive rates from 15% to 35% and state income tax for the six months ended 30 June 2018 and 2017.

(iii) The Group's subsidiaries incorporated in Hong Kong were subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2018 and 2017.

(iv) The Group's subsidiaries incorporated in Macau were subject to Macau Complementary Tax. The provision for Macau Complementary Tax for the six months ended 30 June 2018 and 2017 is calculated at the rate of 12%, of which assessable profits of the first MOP300,000 is exempted from tax.

(v) The Group's subsidiaries incorporated in Peru were subject to income tax rates from 5% to 29.5% for the six months ended 30 June 2018 (six months ended 30 June 2017: 5% to 27%).

(vi) Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax rate of 25%, unless otherwise specified below:

Guangxi Baijing Flooring Co., Ltd ("Guangxi Baijing") enjoys preferential enterprise income tax rate of 9% for the six months ended 30 June 2018 and 2017, which is based on 15% preferential tax rate for qualified enterprise located in the western region of the PRC with an additional 40% exemption agreed by the local taxation bureau from 2016 to 2020.

Nature (Zhongshan) Wood Industry Co., Ltd. ("Nature (Zhongshan)") was qualified as a High-tech enterprise to enjoy a preferential enterprise income tax rate of 15% from 2017 pursuant to documents issued by local government authorities from 2017 to 2018.

(vii) At 30 June 2018, except for deferred tax liabilities of RMB23,900,000 (31 December 2017: RMB25,000,000) recognised for the profit distribution plan of certain PRC subsidiaries (the "Proposed Dividend"), no further deferred taxation was recognised in respect of the dividend withholding tax relating to the undistributed profits of the Company's subsidiaries, as the Company controls the dividend policy of these subsidiaries. The Directors of the Group determined that the undistributed profits of the Company's subsidiaries would not be distributed in the foreseeable future except for those Proposed Dividend.

The amounts of remaining undistributed profit of the Company's subsidiaries are set out below:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Distributable profits earned by PRC subsidiaries on or after 1 January 2008	**1,352,075**	1,218,854

As all of the Company's PRC subsidiaries are directly or indirectly owned by a Hong Kong or Macau incorporated subsidiary which is not a qualified tax resident, a rate of 10% is applicable to the PRC dividend withholding tax. Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 6.8%.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB74,751,000 (six months ended 30 June 2017: RMB16,459,000) and the weighted average of 1,443,167,000 ordinary shares (six months ended 30 June 2017: 1,439,238,000) in issue during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2018	2017
	'000	'000
Issued ordinary shares at 1 January	**1,468,238**	1,468,238
Effect of purchase of own share	**(3,978)**	—
Effect of outstanding shares purchased under the Share Award Scheme	**(21,093)**	(29,000)
Weighted average number of ordinary shares at 30 June	**1,443,167**	1,439,238

(b) Diluted earnings per share

For the periods ended 30 June 2018 and 2017, the effect of the Company's outstanding share options was anti-dilutive. Therefore, diluted earnings per share were the same as the basic earnings per share.

9 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of the financial statements of entities not using RMB as functional currency	**(518)**	**—**	**(518)**	(4,340)	—	(4,340)
Net movement in fair value reserve of available-for-sale securities	**—**	**—**	**—**	2,886	(722)	2,164
Net movement in fair value reserve of equity investment through other comprehensive income	**(15,976)**	**3,994**	**(11,982)**	—	—	—
Other comprehensive income	**(16,494)**	**3,994**	**(12,500)**	(1,454)	(722)	(2,176)

10 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASE PREPAYMENTS

During the six months ended 30 June 2018, the Group acquired items of plant and machinery with a cost of RMB73,018,000 (six months ended 30 June 2017: RMB41,064,000).

As at 30 June 2018, other property, plant and equipment and lease prepayments with carrying amount of RMB86,711,000 and RMB66,244,000 (31 December 2017: RMB149,008,000 and RMB75,821,000) respectively were pledged for bank loans (note 16).

11 OTHER FINANCIAL ASSETS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Designated as fair value through other comprehensive income	**61,199**	—
Available-for-sale financial assets		
— Unlisted	**–**	28,274
— Listed	**–**	47,102
	–	75,376
Total	**61,199**	75,376

(a) Designated as fair value through other comprehensive income

	Equity securities RMB'000
Balance at 1 January 2018	75,376
Additions	1,799
Change in fair value recognised in other comprehensive income	(15,976)
Balance at 30 June 2018	61,199

Net change in fair value recognised in other comprehensive income

The fair value measurement for listed equity securities that were designated as FVOCI (non-recycling) has been categorised as Level 1 fair value: unadjusted quoted price in active markets for identical assets or liabilities at the measurement date, as defined in IFRS 13, Fair value measurement. During the six months ended 30 June 2018, there were no transfers between Level 2 and Level 3, or transfer into or out of Level 1.

The fair value measurement for unlisted equity securities that were designated as FVOCI (non-recycling) has been categorized as Level 3 fair value upon the adoption of IFRS 9 at 1 January 2018 (note19(a)).

12 TRADE AND BILLS RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivables, based on invoice date and net of loss allowance is as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 month	291,062	266,972
1 to 3 months	251,846	488,758
3 to 6 months	214,508	235,237
6 to 12 months	278,067	42,323
Over 12 months	108,238	147,098
	1,143,721	1,180,388

As at 30 June 2018, trade debtors of RMB229,500,000 (31 December 2017: RMB481,309,000) were pledged to banks to secure bank loans obtained by the Group (note 16).

Trade and bills receivables are due within 30 to 365 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted.

13 RESTRICTED DEPOSITS

At the end of the reporting period, the deposits have been placed with banks as securities for the followings:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank loan (note 16)	116,000	116,000
Others	127,794	125,921
	243,794	241,921

Others mainly represented deposits placed in the financial institutions in the PRC for security of certain sales contracts and bidding transactions as required by the counter parties.

14 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash at bank and in hand	**612,923**	749,862

At 30 June 2018, cash and cash equivalents placed with banks in mainland China amounted to RMB579,700,000 (31 December 2017: RMB703,004,000). Remittance of funds out of mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

15 TRADE AND BILLS PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables, based on invoice date, is as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 month	**258,999**	241,068
1 to 3 months	**205,302**	150,395
3 to 6 months	**145,154**	157,676
6 to 12 months	**11,417**	20,771
Over 12 months	**53,291**	39,254
	674,163	609,164

16 BANK AND OTHER LOANS

At 30 June 2018, the bank loans were repayable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year or on demand	570,627	665,361
After 2 years but within 5 years	106,905	103,900
Total	677,532	769,261

At 30 June 2018, the bank and other loans were secured as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank loans (i)		
Secured	523,370	712,595
Unsecured	98,612	56,666
Sub-total	621,982	769,261
Other loan-secured (ii)	55,550	—
Total	677,532	769,261

Notes:

(i) At 30 June 2018, the Group has secured bank loans and borrowings amounting to RMB523,370,000 (31 December 2017: RMB712,595,000), of which:

— RMB106,905,000 (31 December 2017: RMB123,400,000) of these loans were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantee; and

— RMB416,465,000 (31 December 2017: RMB589,195,000) of these loans were solely secured by assets of the Group.

These third party guarantors are minority shareholders of a subsidiary.

16 BANK AND OTHER LOANS (Continued)

Notes: (Continued)

(ii) At 30 June 2018, RMB55,550,000 was borrowed from a financial leasing company and secured by other property, plant and equipment with net book value of RMB23,994,000.

(iii) The pledged assets of the Group are as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Restricted deposits (note 13)	116,000	116,000
Other property, plant and equipment (note 10)	86,711	149,008
Lease prepayments (note 10)	66,244	75,821
Trade and bills receivables (note 12)	229,500	481,309
	498,455	822,138

(iv) Parts of the Group's banking facilities, amounted to RMB590,405,000 (31 December 2017: RMB610,502,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2017 and 30 June 2018, none of the covenants relating to drawn down facilities had been breached.

(v) The unutilised banking facilities as at 30 June 2018 amounted to RMB385,981,000 (31 December 2017: RMB281,717,000).

(Expressed in Renminbi unless otherwise indicated)

17 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme

The Company has two share option schemes which were adopted on 16 December 2008 ("Pre-IPO Plan") and 3 May 2011 ("Post-IPO Plan") respectively whereby the directors of the Company are authorised at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at a consideration of HKD1 to the subscribe for shares of the Company. Each option entitles the option holders to subscribe one ordinary share of the Company.

Plans	Date of grant	Batch	Numbers of options granted	Vesting period	Exercise price (HKD)	Contractual life of options	Remaining contractual life
Options granted to employees:							
Pre-IPO Plan	17 December 2008	Batch 1	2,512,301	17 December 2008 to 30 December 2008	2.35	10 years	0.46 years
	17 December 2008	Batch 2	2,512,301	17 December 2008 to 30 December 2009	2.35	10 years	0.46 years
	17 December 2008	Batch 3	5,024,602	17 December 2008 to 30 December 2011	2.35	10 years	0.46 years
	17 December 2008	Batch 4	7,536,903	17 December 2008 to 30 December 2012	2.35	10 years	0.46 years
	17 December 2008	Batch 5	7,536,903	17 December 2008 to 30 December 2013	2.35	10 years	0.46 years
	1 July 2010	Batch 6	1,200,000	1 July 2010 to 30 December 2010	3.38	10 years	2 years
	1 July 2010	Batch 7	3,600,000	1 July 2010 to 30 December 2011	3.38	10 years	2 years
	1 July 2010	Batch 8	3,600,000	1 July 2010 to 30 December 2012	3.38	10 years	2 years
	1 July 2010	Batch 9	3,600,000	1 July 2010 to 30 December 2013	3.38	10 years	2 years
Post-IPO Plan	4 January 2012	Batch 10	58,000,000	4 January 2012 to 4 January 2015	1.45	10 years	3.52 years
	8 October 2013	Batch 11	31,500,000	8 October 2013 to 8 October 2016	1.61	10 years	5.28 years
Options granted to directors:							
Post-IPO Plan	4 January 2012	Batch 10	10,000,000	4 January 2012 to 4 January 2015	1.45	10 years	3.52 years
		Total	136,623,010				

17 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) Share option scheme (Continued)

The number and weighted average exercise prices of share options are as follows:

	Six months ended 30 June			
	2018		2017	
	Weighted average exercise price HKD	**Number of options '000**	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the period	**1.78**	**106,460**	1.79	111,811
Forfeited during the period	**1.82**	**(7,148)**	1.65	(1,478)
Outstanding at the end of the period	**1.78**	**99,312**	1.79	110,333
Exercisable at the end of the period	**1.78**	**99,312**	1.79	110,333

The share options outstanding at 30 June 2018 and 31 December 2017 had an exercise price of HK$1.45-3.38 and a weighted-average remaining contractual life of 3.3 years (31 December 2017: 3.7 years). No options were exercised during the six months ended 30 June 2018 and 2017.

During the six months ended 30 June 2018, the Group reversed RMB4,404,000 (six months ended 30 June 2017: RMB878,000) in respect of forfeited share options from several resigned staffs.

(b) Share Award Scheme

On 25 April 2016, the board of directors of the Company approved the adoption of a Share Award Scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") are awarded to selected employees of the Group in accordance with the provisions of the Share Award Scheme.

The shares to be awarded under the Share Award Scheme are acquired by the independent trustee from the open market out of cash contributed by the Group and held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme.

The board of directors shall not make any further award which will result in the aggregate number of Awarded Shares awarded by the board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time. The number of the Awarded Shares awarded to each of selected employees shall not exceed 1% of the total number of issued shares from time to time.

17 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) Share Award Scheme (Continued)

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the board of directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

Subject to any early termination as may be determined by the board of directors, the Share Award Scheme shall be valid and effective for a term of 4 years commencing on 25 April 2016.

(i) Details of the shares held under the Share Award Scheme are set out below:

	Average purchase price	No. of shares held	Value of shares	
	HKD	’000	HKD’000	RMB’000
Shares held for the Share Award Scheme as at 31 December 2017	1.26	26,790	33,755	28,887
Exercised during the period	1.26	(11,395)	(14,358)	(12,054)
Shares held for the Share Award Scheme as at 30 June 2018	1.26	15,395	19,397	16,833

(ii) Details of the Company’s Share Award Scheme are as follows:

Date of grant	Vesting date	Number of Awarded Shares				
		granted	forfeited	exercised	modified	unvested
		’000	’000	’000	’000	’000
25 April 2016	31 March 2018	14,500	(1,105)	(11,395)	(2,000)	—
25 April 2016	31 March 2019	14,500	(1,105)	—	2,000	15,395
		29,000	(2,210)	(11,395)	—	15,395

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company’s shares.

17 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

The Group recognised share award expenses of RMB3,605,000 during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB5,599,000) with a corresponding increase in a capital reserve within equity in accordance with the accounting policy adopted for share-based payments.

The Group has extended the vesting period of 2,000,000 share awarded to two directors in the Share Award Scheme, the vesting date of which was extended from 31 March 2018 to 31 March 2019.

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board has resolved not to declare any interim dividends for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

(b) Purchase of own shares

During the interim period, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid RMB'000
May 2018	6,500,000	1.51	1.43	7,846
June 2018	6,356,000	1.71	1.48	8,365
				16,211

The reserve for the Company's other treasury shares comprises the cost of the Company's shares held by the Group. At 30 June 2018, the Group held 15,066,000 of the Company's shares.

(c) Reserves

Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see note 2(b)(i)).

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Financial instruments carried at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 30 June 2018	Fair value measurements as at 30 June 2018 categorised into			Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Non-trading listed equity securities (note)	31,126	31,126	–	–	47,102	47,102	–	–
Unlisted equity securities (note)	30,073	–	–	30,073	–	–	–	–

During the six months ended 30 June 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. Unlisted equity securities, were categorised into Level 3, upon the adoption of IFRS 9 at 1 January 2018, which were exempt to fair value measurement and recognised in the statement of financial position at cost less impairment losses as at 31 December 2017. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Note: Non-trading listed equity securities and unlisted equity securities, which were classified to available-for-sale financial assets as at 31 December 2017, designated at FVOCI (non-recycling) upon the adoption of IFRS 9 at 1 January 2018 (see note 2(b)(i)).

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Financial instruments carried at fair value (Continued)

(i) Fair value hierarchy (Continued)

The fair value of unlisted equity equities is determined using the cost as approximation of fair value, as the investees were pre-revenue entity, when there was no catalyst for a change in fair value, and insufficient recent information was available to measure fair value. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Unlisted equity securities:		
At 1 January	28,274	—
Additions	1,799	—
At 30 June/31 December	30,073	—

From 1 January 2018, any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains or losses arising from the disposal and impairment of the unlisted equity securities were presented in the "Other income" and "Other operating expenses" line items respectively in the consolidated statement of profit or loss.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost are not materially different from their fair values as at 31 December 2017 and 30 June 2018.

20 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the end of reporting period not provided for in the interim financial report are as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	**30,209**	41,732

(b) Operating lease commitments

At the end of the reporting period, the total future minimum lease payments under operating leases are as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**28,735**	20,232
After 1 year but within 3 years	**19,950**	13,976
After 3 years but within 5 years	**2,063**	1,993
After 5 years	**3,008**	3,640
	53,756	39,841

(c) Contingent liabilities

There were three outstanding litigations commenced by a constructor and a client against certain subsidiaries of the Group claiming rental fee of RMB1,901,000, and liquidated damages of RMB2,110,000 respectively. The subsidiaries continue to deny any liability in respect of the claims and based on the advice of the Group's legal counsels, the directors of the Group do not believe it probable that the courts will find against them. No provision has therefore been made in respect of these claims.

21 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and senior management, is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**4,425**	4,703
Post-employment benefits	**10**	13
Equity-settled share-based payment expenses	**538**	772
	4,973	5,488

22 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to IFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as IFRS 9 (see note 2(b)), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of IFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

IFRS 16, Leases

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of IFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

As disclosed in note 20(b), at 30 June 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB53,756,000, part of which is payable either between 1 and 5 years after the reporting date or in more than 5 years.

Upon the initial adoption of IFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognized as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. 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 IFRS 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 IFRS 16.