



## ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198



2018  
Interim Report

## CORPORATE INFORMATION

### DIRECTORS

#### *Executive Directors*

Mr. Tse Kam Pang  
(*Chairman, Chief Executive Officer*)  
Mr. Tse Hok Kan  
Mr. Chan Wing Kit  
Mr. Chen Hao (resigned on 23 April 2018)

#### *Independent Non-Executive Directors*

Dr. Donald H. Straszheim  
Mr. Lau Chi Kit  
Mr. Yue Man Yiu Matthew

### AUDIT COMMITTEE

Mr. Yue Man Yiu Matthew (*Chairman*)  
Dr. Donald H. Straszheim  
Mr. Lau Chi Kit

### REMUNERATION COMMITTEE

Mr. Lau Chi Kit (*Chairman*)  
Dr. Donald H. Straszheim  
Mr. Yue Man Yiu Matthew

### NOMINATION COMMITTEE

Mr. Lau Chi Kit (*Chairman*)  
Dr. Donald H. Straszheim  
Mr. Yue Man Yiu Matthew

### COMPANY SECRETARY

Mr. Chui See Lai

### AUDITOR

Ernst & Young

### SOLICITOR

Jeffrey Mak Law Firm

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
Bank of China  
Bank of Communications Co., Ltd.  
Hong Kong Branch

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited  
Royal Bank House – 3rd Floor  
24 Shedden Road  
P.O. Box 1586  
Grand Cayman, KY1-1110  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## **CORPORATE INFORMATION** *(Continued)*

### **REGISTERED OFFICE**

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
Grand Cayman  
Cayman Islands  
British West Indies

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

Room 607, 6/F  
Tsim Sha Tsui Centre  
66 Mody Road  
Tsim Sha Tsui East  
Kowloon, Hong Kong

### **STOCK CODE**

1198

### **INVESTOR RELATIONS**

Tel: (852) 2636-6648  
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## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the period under review, the traditional consumer sector was further affected by a trade war overshadowing the Chinese economy amid a comparatively weak market and overall economy. Nonetheless, alongside stable economic development in China and ongoing urbanization in rural areas, the individual income growth continued, and thus the purchase power and consumer sentiment remained strong in pursuit of a better lifestyle. In such case, companies engaged in the traditional furniture industry shall adapt to the new business environment by making necessary adjustments, as the entire industry is currently exposed to new development trends and technological developments in the society. During the period under review, the Group identified alternatives for traditional marketing approaches for furniture by establishing collaboration with large property developers and local distributors on the B2B businesses. In addition to providing design services to model rooms for sales, the Group made direct sales of furniture to prospective property owners.

During the period under review, the Group continued to proceed with its effective reforms, including product position and upgrades, marketing channel expansion, and brand strategy and promotions. During the period under review, revenue increased by 9.8% to approximately HK\$ 422.1 million, while the gross profit margin dropped by 1.1 percentage points due to rising labour costs and outsourcing costs. During the same period, the Group achieved an encouraging result with the profit for the period attributable to the owners of the parent company increasing by 6.3% to HK\$ 13.9 million.

### Sales and Network Management

Aiming at providing better service to franchisees with less sales manpower, the Group's sales department underwent a restructuring process by downsizing the number of sales representatives, adjusting sales approaches, the remuneration structure and KPI performance management, increasing training efforts, optimizing terms of reference, and implementing stringent control over travel expenses.

### Brand Management

Ms. Lin Chi Ling, a famous celebrity and movie star in Asia, continued to be the Group's spokesperson and will feature in the Group's advertisements as well as other marketing activities to promote the Group's brand name.

The reputed Ms. Lin Chi Ling has effectively enhanced the brand name of the Group alongside provision of product information of the Group to consumers. Furthermore, the Group worked closely with both traditional and new online media, aiming to maintain our exposure to the public and to enhance our image as a household brand.

During the period under review, the Group also continued to launch TV commercials on CCTV channels.

## FINANCIAL REVIEW

### Inventory and Prepayments, Deposits and Other Receivables

During the reporting period, the Group's inventory increased by 13.6% to HK\$294.5 million (31 December 2017: HK\$259.2 million). Such increase was mainly attributable to more product lines that had been launched by the Group and inventories for project sales.

Prepayments, deposits and other receivables increased by 10.2% to HK\$188 million (31 December 2017: HK\$170.5 million). These were mainly due to the advances paid to outsourcing factories or suppliers for the newly launched product series and secure supply of raw materials.

### Other comprehensive (loss)/income

During the period under review, we have experienced an unusual movements in the exchange rate of RMB, where RMB become stronger from the start of the year through to around mid-second quarter of the year, and devaluated significantly since then, resulted an exchange loss arising from translation of foreign operation approximately HK\$13.6 million as reported in the condensed consolidated statement of comprehensive income.

### Working Capital Challenge

The Group had net current assets of HK\$62.8 million during the reporting period (31 December 2017: net current liabilities HK\$8.2 million). The Group will continue to take initiatives to improve its working capital.

## PROSPECTS

Looking into the second half year of 2018, domestic consumers continued to display their specific furniture requirements, including middle-range and high-end products, quality consumption, individualism, and product customization, despite comparatively greater downward pressure that may weigh on China's economy amid an escalating trade war between China and America.

In close synchronization with new product developments rising from the market and consumer trends, the Group ensures better services to its current franchisees, while continuing to launch a number of various product series to entice new franchisees, both of which will strengthen and optimize its franchisee network. On the other hand, the management will continue to identify sizeable furniture projects to expand its sales sources.

In the second half year of 2018, the Group will continue other reforms on top of a series of reform initiatives taken during 2017. Besides optimizing the supply chain management, we take into consideration the purchase of advanced equipment to enhance the production and management system so that the overall management standard and work efficiency will be further improved.

In anticipation that the Chinese consumer market is exposed to various impacts, the Group will, however, maintain a prudent but positive position on various business developments, and prepare well to embrace challenges arising from the constantly changing market demands in the future.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES AND DEBENTURES

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

### Long positions in shares and underlying shares of the Company:

Name of Directors	Long position/ Short position	Number of Shares	Number of share options <sup>1</sup>	Aggregate percentage of interest as at 30 June 2018 <sup>2</sup>
Tse Kam Pang	Long position	715,803,355 <sup>3</sup>	6,335,134	35.99
Tse Hok Kan	Long position	–	9,200,000	0.46
Chan Wing Kit	Long position	1,546,538 <sup>4</sup>	24,014,538	1.27
Donald H. Straszheim	Long position	–	9,268,647	0.46
Lau Chi Kit	Long position	–	9,265,096	0.46
Yue Man Yiu Matthew	Long position	–	9,265,096	0.46

Notes:

- The number of share options refers to the number of underlying Shares covered by the share options granted to them.
- This represents the percentage of aggregate long position in shares and underlying shares to the total issued share capital of the Company as of 2,006,440,619 Shares at 30 June 2018.
- 320,194,313 Shares were held by Mr. Tse Kam Pang personally, 185,840,120 Shares and 209,768,922 Shares were held by Crisana International Inc. and Charming Future Holdings Limited, respectively, which are wholly and beneficially owned by Mr. Tse Kam Pang, who was deemed to be interested in the aggregate of 395,609,042 shares held by these companies.
- Mr. Chan Wing Kit was interested in 36,538 Shares of the Company of which 1,579 Shares were held by him personally and 34,959 Shares were held by World Partner Development Limited, a company whose entire issued share capital is owned by Mr. Chan Wing Kit. He was also deemed to be interested in 1,510,000 Shares of the Company held by his spouse.

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

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

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

### Long position:

Name of Shareholders	Capacity and nature of interest	Number of ordinary shares held	Aggregate percentage of interest as at 30 June 2018 <sup>1</sup>
Crisana International Inc.	Directly beneficially owned	185,840,120 <sup>2</sup>	9.26
Charming Future Holdings Limited	Directly beneficially owned	209,768,922 <sup>3</sup>	10.45
Great Diamond Developments Limited	Directly beneficially owned	259,540,000 <sup>4</sup>	12.94

Notes:

1. This represents the percentage of aggregate long position in Shares and underlying Shares to the total issued share capital of the Company as of 2,006,440,619 Shares at 30 June 2018.
2. These 185,840,120 Shares were held by Crisana International Inc., which is wholly and beneficially owned by Mr. Tse Kam Pang, the Chairman of the Company, who is deemed to be interested in these 185,840,120 Shares.
3. These 209,768,922 Shares were directly held by Charming Future Holdings Limited, which is wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the 209,768,922 Shares.
4. These 259,540,000 Shares were held by Great Diamond Developments Limited. Great Diamond Developments Limited was incorporated in the British Virgin Islands whose ultimate beneficial owners are Mr. Wong Shu Yui (as to 35%), Ms. Chan Siu Ying (as to 25%), Mr. Wong Kai Kei (as to 20%) and Mr. Wong Yim (as to 20%).

Save as disclosed above, as at 30 June 2018, no other persons or corporations (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(Continued)*

### Share Option Scheme

The Company adopted a share option scheme on 18 May 2012 and it was refreshed on 25 May 2018. Please refer to the circular and the announcements of the Company dated 20 April 2012 and 19 April 2018 respectively for details.

Based on a valuation report done by an independent valuer, the value of the options granted on 22 August 2017 and 17 April 2018 under the Share Option Scheme were HK\$4,579,000 and HK\$14,522,000 respectively, of which the Group recognised a share option expense of HK\$5,255,000 during the six months ended 30 June 2018.

At the end of the reporting period, the Company had 162,780,784 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 162,780,784 additional ordinary shares of the Company and additional share capital of HK\$16,278,078 and share premium of HK\$76,899,566 (before issue expenses).

As at the end of the reporting Period, the Company had the following outstanding options:

Date of grant	Exercise price per Share HK\$	Exercisable period	Number of options			
			At 1 January 2018	Granted during the period	Exercised during the period	At 30 June 2018 (Note)
20 July 2009	0.410	20 July 2010 to 19 July 2019	7,398,913	-	-	7,398,913
7 September 2012	0.729	7 September 2013 to 6 September 2022	4,496,965	-	-	4,496,965
2 January 2013	0.789	2 January 2014 to 1 January 2023	19,318,706	-	-	19,318,706
2 January 2013	0.789	2 January 2015 to 1 January 2023	19,318,706	-	-	19,318,706
17 April 2014	0.372	17 April 2015 to 16 April 2024	3,002,908	-	-	3,002,908
22 June 2016	0.320	22 June 2017 to 21 June 2026	61,059,124	-	15,014,538	46,044,586
22 August 2017	0.562	22 August 2018 to 21 August 2027	17,200,000	-	-	17,200,000
17 April 2018	0.670	17 April 2019 to 16 April 2028	-	46,000,000	-	46,000,000

Note: Save as disclosed above, the Company had no outstanding convertible securities, options, warrants or derivatives in issue.



## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group maintained cash and cash equivalents amounted to HK\$51.3 million as at 30 June 2018 (31 December 2017: HK\$82.2 million).

As at 30 June 2018, addition to the interest-bearing bank and other borrowings amounted to HK\$343.4 million (31 December 2017: HK\$295.4 million), the Group had loans from a director, non-controlling interests and medium term bonds in a total of HK\$83.3 million (31 December 2017: HK\$82.6 million).

As at 30 June 2018, the current ratio (current assets/current liabilities) was 1.1 times (31 December 2017: 0.99 times) and the net current assets amounted to HK\$62.8 million (31 December 2017: net current liabilities HK\$8.2 million).

## **CAPITAL STRUCTURE**

There has been no material change in the capital structure of Group during the Period under review.

## **FOREIGN EXCHANGE EXPOSURES**

Our Group has foreign currency exposures. Such exposures mainly arise from the balance of assets and liabilities and transactions in currencies other than the respective functional currencies of our Company and its subsidiaries. Currently, the Group does not maintain any hedging policy with respect to these foreign currency exposures.

## **CONTINGENT LIABILITIES**

As at 30 June 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

## **EMPLOYMENT AND REMUNERATION POLICY**

The total number of employees of the Group as at 30 June 2018 was approximately 2,286 (31 December 2017: 2,268). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Save as disclosed below, the Company has complied with all of the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the Period.

In compliance with Code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Nonetheless, the Company has appointed Mr. Tse Kam Pang as both its chairman and chief executive officer, following the departure of the ex-CEO in 2012. The Board believes that vesting the roles of the chairman and the chief executive officer in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operation of the Board, which comprises experienced and technical individuals with a sufficient number thereof being independent non-executive directors.

## **AUDIT COMMITTEE REVIEW**

The accounting information given in this interim results for the Period has not been audited but the audit committee of the Company has reviewed the financial results of the Group for the period ended 30 June 2018 and discussed with internal audit executives matters on internal control and financial reports of the Group. The audit committee of the Company has not undertaken external independent audit checks regarding the interim results for the Period.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted for compliance by the directors the code of conduct for dealings in securities of the Company as set out in Appendix 10 of the Listing Rules: Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”). Having made specific enquiry to all the directors of the Company, the directors confirmed that they had complied with the Model Code for the period ended 30 June 2018.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities for the period ended 30 June 2018.

## RESULTS

The board of Directors (the “Board”) announces the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
REVENUE	4	<b>422,086</b>	384,567
Cost of sales		<b>(283,887)</b>	(254,671)
Gross profit		<b>138,199</b>	129,896
Other income and gains	4	<b>13,251</b>	12,746
Selling and distribution expenses		<b>(80,378)</b>	(69,334)
Administrative expenses		<b>(47,578)</b>	(47,491)
Finance costs	6	<b>(10,415)</b>	(11,970)
PROFIT BEFORE TAX	5	<b>13,079</b>	13,847
Income tax expenses	7	<b>-</b>	-
PROFIT FOR THE PERIOD		<b>13,079</b>	13,847

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		<b>13,924</b>	13,103
NON-CONTROLLING INTERESTS		<b>(845)</b>	744
		<b>13,079</b>	13,847
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		(Restated)
Basic		<b>HK0.703 cents</b>	HK0.742 cents
			(Restated)
Diluted		<b>HK0.689 cents</b>	HK0.732 cents

Details of the dividends payable and proposed for the Period are disclosed in note 8 to the condensed consolidated interim financial statements of the Period.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	<b>13,079</b>	13,847
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange difference arising from translation of foreign operations	<b>(13,613)</b>	28,411
Total comprehensive (loss)/income for the period	<b>(534)</b>	42,258
Attributable to:		
Owners of the parent	<b>1,480</b>	39,246
Non-controlling interest	<b>(2,014)</b>	3,012
	<b>(534)</b>	42,258

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,020,748</b>	1,056,316
Investment properties		<b>459,849</b>	459,849
Prepaid land lease payments		<b>124,840</b>	77,091
Goodwill		<b>102,212</b>	67,730
Intangible assets		<b>13,143</b>	4,739
Prepayment		<b>–</b>	81,963
<b>Total non-current assets</b>		<b>1,720,792</b>	1,747,688
<b>CURRENT ASSETS</b>			
Inventories		<b>294,484</b>	259,167
Trade receivables	10	<b>89,069</b>	53,776
Prepayments, deposits and other receivables		<b>187,945</b>	170,508
Cash and cash equivalents		<b>51,326</b>	82,182
<b>Total current assets</b>		<b>622,824</b>	565,633
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>107,401</b>	116,545
Other payables and accruals		<b>126,195</b>	145,923
Interest-bearing bank and other borrowings		<b>223,203</b>	208,088
Tax payable		<b>103,252</b>	103,252
<b>Total current liabilities</b>		<b>560,051</b>	573,808
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>62,773</b>	(8,175)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,783,565</b>	1,739,513

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>1,783,565</b>	1,739,513
NON-CURRENT LIABILITIES			
Medium term bonds	12	<b>29,363</b>	28,208
Interest-bearing bank and other borrowings		<b>120,167</b>	87,298
Loan from non-controlling interests		<b>41,909</b>	42,438
Loan from a director		<b>12,000</b>	12,000
Deferred tax liabilities		<b>56,591</b>	54,926
Deferred government grant		<b>50,105</b>	50,738
Total non-current liabilities		<b>310,135</b>	275,608
Net assets		<b>1,473,430</b>	1,463,905
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Share capital		<b>200,644</b>	199,143
Reserves		<b>1,181,073</b>	1,171,035
<b>Non-controlling interests</b>		<b>1,381,717</b>	1,370,178
		<b>91,713</b>	93,727
Total equity		<b>1,473,430</b>	1,463,905

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000	
	Share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset valuation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000			Total HK\$'000
At 1 January 2017 (audited)	176,238	889,494	18,887	142,239	8,535	32,045	(142,371)	1,125,067	73,392	1,198,459
Profit for the period	-	-	-	-	-	-	13,103	13,103	744	13,847
Other comprehensive income for the period:										
Exchange differences related to foreign operations	-	-	-	-	-	26,143	-	26,143	2,268	28,411
Total comprehensive income for the period	-	-	-	-	-	26,143	13,103	39,246	3,012	42,258
Equity settled share option expense	-	-	4,293	-	-	-	-	4,293	-	4,293
At 30 June 2017 (unaudited)	176,238	889,494	23,180	142,239	8,535	58,188	(129,268)	1,168,606	76,404	1,245,010
At 1 January 2018	<b>199,143</b>	<b>968,546</b>	<b>23,780</b>	<b>136,780</b>	<b>10,027</b>	<b>123,429</b>	<b>(91,527)</b>	<b>1,370,178</b>	<b>93,727</b>	<b>1,463,905</b>
Profit for the period	-	-	-	-	-	-	13,924	13,924	(845)	13,079
Other comprehensive income for the period:										
Exchange differences related to foreign operations	-	-	-	-	-	(12,444)	-	(12,444)	(1,169)	(13,613)
Equity-settled share option expense	199,143	968,546	23,780	136,780	10,027	110,985	(77,603)	1,371,658	91,713	1,463,371
Exercise of share options	-	-	5,255	-	-	-	-	5,255	-	5,255
	1,501	5,283	(1,980)	-	-	-	-	4,804	-	4,804
At 30 June 2018 (unaudited)	<b>200,644</b>	<b>973,829*</b>	<b>27,055*</b>	<b>136,780*</b>	<b>10,027*</b>	<b>110,985*</b>	<b>(77,603)*</b>	<b>1,381,717</b>	<b>91,713</b>	<b>1,473,430</b>

\* These reserve accounts comprise the consolidated reserves of HK\$1,181,073,000 (31 December 2017: HK\$1,171,035,000) in the condensed consolidated statement of financial position.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash flow used in operating activities	<b>(49,537)</b>	(50,858)
Net cash flow used in investing activities	<b>(26,336)</b>	(3,222)
Net cash flow from/(used in) financing activities	<b>47,212</b>	(16,339)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(28,661)</b>	(70,419)
Cash and cash equivalents at beginning of period	<b>82,182</b>	103,516
Effect of foreign exchange rate changes, net	<b>(2,195)</b>	3,201
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>51,326</b>	36,298
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>51,326</b>	36,298

## NOTES TO FINANCIAL STATEMENTS

At 30 June 2018

### 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements for the Period do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

The Group recorded a consolidated net profit of HK\$13,079,000 (six months ended 30 June 2017: HK\$13,847,000) for the six months ended 30 June 2018 and as at 30 June 2018, the Group recorded net current assets of HK\$62,773,000 (31 December 2017: net current liabilities HK\$8,175,000). In view of these circumstances, the directors of the Company have given consideration to the future liquidity, future performance of the Group, the existing banking facilities and other available sources of finance in assessing whether the Group will have sufficient cash flows to continue as a going concern. Based on the management estimation of the future cash flows of the Group, the directors of the Company believe that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. In the Period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the Period.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts
Amendments to HKAS 28	Investments in associates and joint ventures clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
Amendments to HKAS 40	Transfers of investment property

The application of the above new and amendments to HKFRSs in the Period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

## 3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single operating segment.

### Information about a major customer

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the Period (six months ended 30 June 2017: Nil).

#### 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Revenue</b>		
Sales of goods	422,086	384,567
<b>Other income and gains</b>		
Bank interest income	10	15
Rental income	10,431	9,807
Sales of scraps	590	552
Others	2,220	2,372
	13,251	12,746
	435,337	397,313

#### 5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Cost of goods sold	283,887	254,671
Depreciation of items of property, plant and equipment	35,704	30,175
Amortisation of intangible assets	934	271
Minimum lease payments under operating leases in respect of land and buildings	6,725	4,309

**6. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2018</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2017 HK\$'000 (Unaudited)
Interest on medium term bonds	<b>1,155</b>	1,032
Interest on bank and other borrowings	<b>7,925</b>	9,717
Interest on loan from non-controlling interests	<b>1,335</b>	1,221
	<b>10,415</b>	11,970

**7. INCOME TAX**

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 June</b>	
	<b>2018</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2017 HK\$'000 (Unaudited)
Current – PRC corporate income tax	–	–
Total tax charge for the period	–	–

Under Decree – Law no. 58/99/M, companies in Macau incorporated under that Decree – Law (referred to as the “58/99/M Companies”) are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. Sino Full Macao Commercial Offshore Limited, a subsidiary of the Group, is qualified as a 58/99/M company.

**8. DIVIDENDS**

The directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,980,506,680 (six months ended 30 June 2017 (restated): 1,764,085,160) in issue during the Period.

The calculation of the diluted earnings per share amounts is based on the profit for the Period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

Adjustment has been made to diluted earnings per share amounts presented for the period ended 30 June 2017 as adjusted to reflect the open offer on 10 August 2017.

The calculations of basic and diluted earnings per share are based on:

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parents, used in the basic and diluted earnings per share calculations	<b>13,924</b>	13,103
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>(Unaudited)</b>	(Unaudited)
	(Restated)	
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<b>1,980,506,680</b>	1,764,085,160
Effect of dilution-weighted average number of ordinary shares:		
Share options	<b>40,729,011</b>	26,647,699

## 10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non interest bearing.

An aged analysis of the trade receivables as at the end of the reporting Period, based on the invoice date, and net of provisions, is as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Within 1 month	<b>56,097</b>	49,842
1 to 3 months	<b>28,925</b>	3,274
3 to 6 months	<b>3,407</b>	636
over 6 months	<b>640</b>	24
	<b>89,069</b>	53,776

## 11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting Period, based on invoice date, is as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Within 1 month	<b>85,545</b>	71,097
1 to 3 months	<b>9,723</b>	27,747
3 to 6 months	<b>865</b>	13,871
6 to 12 months	<b>8,613</b>	1,404
More than 1 year	<b>2,655</b>	2,426
	<b>107,401</b>	116,545

## 12. MEDIUM TERM BONDS

On 5 February 2016, the Company established a medium term bonds programme with a nominal value of HK\$10,000,000 each. The Bonds are non-callable until 5 February 2025 and non-puttable until 5 February 2020. Interest on the outstanding bonds will be payable annually in arrears at the interest rate of 0.1% per annum first payable on 5 February 2018 and last payable on 5 February 2063 and will mature on 5 February 2064. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 8.01% to 8.86% per annum.

The fair value of the medium term bonds was estimated at the issuance date by discounting the expected future cash flows using an equivalent market interest rate for a similar bond taking into consideration the Group's own credit and liquidity risk.

The medium term bonds recognised in the statement of financial position were calculated as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Carrying amount at 1 January	<b>28,208</b>	15,833
Additions	–	10,949
Accrued Interest expenses	<b>1,155</b>	1,426
Carrying amount	<b>29,363</b>	28,208

## 13. SHARE OPTION SCHEME

According to the scheme limit of the 2012 Scheme as refreshed on the annual general meeting of the Company held on 25 May 2018, the Company may further grant 199,142,608 (31 December 2017: 159,037,701) share options, representing approximately 9.93% (31 December 2017: 7.99%) of the issued share capital of the Company as at 30 June 2018.



## 14. ACQUISITION OF SUBSIDIARIES

### (i) Acquisition of Guangzhou Hong Mian Hong Company Ltd

On 13 March 2018, the Group acquired a 65% interest in Guangzhou Hong Mian Hong Company Ltd (“Hong Mian Hong”). The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Hong Mian Hong for the three month period from the acquisition date.

The fair values of the identifiable assets and liabilities of Hong Mian Hong as at the date of acquisition were:

	<b>Fair value recognised on acquisition</b>
	HK\$'000
Property, plant and equipment	1,329
Inventories	4,753
Trade receivables	7,569
Prepayments, deposits and other receivables	1,076
Intangible assets	15,121
Cash and bank balance	290
Goodwill on acquisition	53,048
Trade payables	(3,082)
Other payables and accruals	(397)
Deferred tax liabilities	(3,780)
Total identifiable net assets at fair value	75,927
Non-controlling interests	(26,575)
Satisfy by cash	49,352
An analysis of cash flow in respect of acquisition of a subsidiary is as follows:	
Cash consideration paid	(49,352)
Net cash acquired	290
Net cash flow on acquisition	(49,062)

None of the goodwill recognised is expected to be deductible for income tax purposes.

14. ACQUISITION OF SUBSIDIARIES (Continued)

(ii) Acquisition of Guangzhou Zunyi Trading Company Ltd

On 21 March 2018, the Group acquired 51% interest in Guangzhou Zunyi Trading Company Ltd ("Zunyi"). Zunyi is a privately-owned company incorporated under the Laws of Mainland China, engaged in wholesale and retail trade.

	<b>Amounts recognised at the date of acquisition</b>
	HK\$'000
Property, plant and equipment	228
Prepaid land lease payments	102,271
Prepayments, deposits and other receivables	5
Cash and bank balance	107
Other payables	(11,355)
Total identifiable net assets at fair value	91,256
Non-controlling interests	(44,715)
Satisfied by cash	46,541
An analysis of cash flow in respect of acquisition of a subsidiary is as follows:	
Cash consideration paid	(46,541)
Cash and bank balances acquired	107
Net cash flow on acquisition	(46,434)

In the opinion of the directors, the acquisition of Zunyi does not constitute a business. Therefore, the transactions were determined by the directors of the Company to be acquisition of assets and liabilities through acquisition of subsidiaries rather than a business combination as defined in HKFRS 3 (Revised) Business Combination.

**15. COMMITMENTS**

The Group had the following capital commitments at the end of the reporting Period:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Authorised, but not contracted for:		
Land and buildings	<b>10,000</b>	10,000
Acquisition of subsidiaries	<b>–</b>	10,887
	<b>10,000</b>	20,887

At the end of the reporting Period, neither the Group nor the Company had any significant contingent liabilities.

**16. EVENT AFTER REPORTING PERIOD**

On 31 July 2018, Haerbin Investment Company Limited (“Vendor”), an indirect wholly-owned subsidiary of the Company and the Wantai Holdings Limited (“Purchaser”) entered into the Disposal and Debt Assignment Agreement, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to purchase Huang Chao Haerbin Investment Company Limited and its subsidiary for the total consideration of approximately RMB130 million.

By Order of the Board  
**Tse Kam Pang**  
*Chairman and Chief Executive Officer*

Hong Kong, 20 August 2018