



ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

2019 INTERIM REPORT



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang
(*Chairman, Chief Executive Officer*)
Mr. Tse Hok Kan
Mr. Chan Wing Kit

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 54, 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, China and the US had undergone multiple rounds of trade negotiations. At the beginning of May 2019, the US imposed an unexpected additional tariff from 10% to 25% against the US\$ 200 billion goods imported from China on top of the 25% tariff imposed on the US\$ 50 billion goods imported from China, in response to which, China immediately raised the tariff to the highest rate of 25% against the US\$ 60 billion goods imported from the US. As a result of the escalating US-China trade tension, China's economy had been adversely affected amid various uncertainties.

Due to the US-China trade tension, China's economic growth decelerated. Despite the fact that the Group's business operations mainly focus on domestic sales in China, the furniture industry was affected by fierce competition and changing market consumption patterns. In view of this, the Group had been committed to maintaining high product quality, outstanding brand quality, as well as expanding various effective sales channels. As a result, we continued to secure certain market share despite the fierce competition in the furniture industry.

During the period under review, revenue decreased by 8.8% to approximately HK\$384.9 million, while the gross profit margin increased by 3 percentage points. During the same period, the profit for the period attributable to the owners of the parent company decreasing by 9.1% to HK\$12.7 million.

Sales and Network Management

For the new sales channels, on top of our existing franchises business, the Group started to work with large property developers by co-operating with local distributors to provide design services to display flats, aiming to sell our products to those prospective property owners. In addition, the Group has managed a number of furniture procurement projects during the period under review by providing professional services such as design, manufacture and fitting of furniture.

Brand Management

Ms. Lin Chi Ling, a famous model 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. During the period under review, the Group was provided with her new image for our new products promotion.

The reputed image of Ms. Lin Chi Ling has effectively enhanced the brand of the Group together with the 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 the Group's image as a renowned household brand.

FINANCIAL REVIEW

Inventory and Prepayments, Deposits and Other Receivables

During the reporting period, the Group's inventory increased by 8.3% to HK\$318.9 million (31 December 2018: HK\$294.6 million). Such increase was mainly attributable to more product series that had been launched by the Group and inventories for project sales.

Prepayments, deposits and other receivables increased by 7.0% to HK\$182.9 million (31 December 2018: HK\$171 million). These were mainly due to the advances paid to suppliers for securing supply and the pricing of certain raw materials in the coming peak season.

Working Capital Challenge

The Group had net current assets of HK\$156.5 million during the reporting period (31 December 2018: net current assets HK\$7.2 million). The Group has improved its working capital.

SUBSCRIPTION AGREEMENT, THE SALE AND PURCHASE AGREEMENT AND POTENTIAL UNCONDITIONAL MANDATORY CASH GENERAL OFFER BY JOINT OFFERORS

On 24 May 2019, the Group and Science City (Guangzhou) Investment Group (科學城(廣州)投資集團) ("Science City") entered into a subscription agreement, pursuant to which Science City conditionally agreed to subscribe for 433,093,554 new shares of the Group by cash. The Board has been informed by Great Diamond Developments Limited (the "Vendor") that on 24 May 2019, the Vendor, Science City (Hong Kong) Investment Co. Limited (the "Purchaser") and the Vendor's guarantors entered into the sale and purchase agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, an aggregate of 218,387,763 Shares for a total consideration of HK\$257,697,560.34 (equivalent to HK\$1.18 per Share). Reference is made to the announcement of the Company dated on 5 June 2019 and the circular of the Company dated 8 July 2019 in relation to, inter alia, the sale and purchase agreement, the subscription agreement and the concert group agreement referred to in the announcement. Upon the completion of the subscription agreement and the sale and purchase agreement, the Joint Offerors (as referred to in the Company's announcement dated 5 June 2019) and parties acting in concert with them will be interested in a total of 1,396,038,406 Shares, representing approximately 53.72% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Joint Offerors will then be required to make an unconditional mandatory cash general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Joint Offerors and parties acting in concert with them) pursuant to Rule 26.1 of the Takeovers Code.

PROSPECTS

Looking into the second half of 2019, domestic consumers continue to display demand for mid to high-end, high quality personalised and customised products, despite comparatively greater downward pressure that may weigh on China's economy amid the ongoing trade war between China and America.

The Group will develop new products in close synchronization with the market and consumer trend, while launching a number of various product series to entice new franchisees. In addition, mid to high-end new products will be introduced to the markets in tier-1 and tier-2 cities. Furthermore, our sales team will enhance the franchisees' service quality and optimize its franchisee network. On the other hand, the management will continue to identify sizeable furniture projects to expand its sales sources.

PROSPECTS *(Continued)*

Aiming to expand production capacity and foray into the Northern China market, the Group will build a new production base in Guangdong Province and establish new distribution spots in Northern China. The production base will be equipped with high mechanized production facilities, aiming to reduce labour cost, constantly improve the product quality, and increase overall production efficiency.

Upon the Subscription Completion, the Sale and Purchase Completion and potential unconditional mandatory general offer completion, Science City may become one of majority shareholder of the Group. The Group anticipates that Science City will bring us various opportunities.

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 2019, 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	Aggregate percentage of interest as at 30 June 2019 ¹
Tse Kam Pang	Long position	744,557,089 ²	34.38%
Tse Hok Kan	Long position	9,200,000	0.42%
Chan Wing Kit	Long position	25,561,076 ³	1.19%
Donald H. Straszheim	Long position	9,268,647	0.43%
Lau Chi Kit	Long position	4,005,096	0.18%
Yue Man Yiu Matthew	Long position	5,267,096	0.24%

Notes:

- This represents the percentage of aggregate long position in shares and underlying shares to the total issued share capital of the Company as of 2,165,467,772 Shares at 30 June 2019.
- 348,948,047 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 24,051,076 Shares of the Company of which 24,016,117 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES AND DEBENTURES *(Continued)*

Save as disclosed above, as at 30 June 2019, 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 2019, 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 2019 ¹
Crisana International Inc.	Directly beneficially owned	185,840,120 ²	8.58%
Charming Future Holdings Limited	Directly beneficially owned	209,768,922 ³	9.69%
Great Diamond Developments Limited	Directly beneficially owned	259,540,000 ⁴	11.99%
Science City (Hong Kong) Investment Co. Limited ("SCHK")	Directly beneficially owned	651,481,317 ⁵	30.09%

Notes:

- This represents the percentage of aggregate long position in Shares and underlying Shares to the total issued share capital of the Company as of 2,165,467,772 Shares at 30 June 2019.
- 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.
- 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.
- 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%).
- Pursuant to the Sale and Purchase Agreement, the Subscription Agreement and the Concert Group Agreement, SCHK is deemed to be interested in 651,481,317 Shares under the SFO (representing 30.09% of the issued share capital of the Company). SCHK is a direct wholly-owned subsidiary of Science City (Guangzhou) Investment Group Co., Ltd ("Science City"), a company established in the PRC with limited liability on 21 August 1984. The ultimate beneficial owner of Science City is the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會). As a result, Science City is also deemed to be interested in 651,481,317 Shares under the SFO (representing 30.09% of the issued share capital of the Company).

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

Long position: *(Continued)*

Save as disclosed above, as at 30 June 2019, 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.

Share Option Scheme

The Company adopted a share option scheme on 18 May 2012 and it was refreshed on 31 May 2019. Please refer to the circular and the announcements of the Company dated 20 April 2012 and 24 April 2019 respectively for details.

Based on a valuation report done by an independent valuer, the value of the options granted on 17 April 2018 under the Share Option Scheme was HK\$14,522,000 respectively, of which the Group recognised a share option expense of HK\$4,217,000 during the six months ended 30 June 2019.

At the end of the reporting period, the Company did not have share options outstanding under the Scheme.

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 30 June 2019 (Note)
			At 1 January 2019	Exercised during the period	Lapsed/forfeited during the period	
20 July 2009	0.410	20 July 2010 to 19 July 2019	7,398,913	(7,398,912)	(1)	-
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	(17,441,891)	(1,876,815)	-
2 January 2013	0.789	2 January 2015 to 1 January 2023	19,318,706	(17,441,891)	(1,876,815)	-
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	43,044,586	(43,044,586)	-	-
22 August 2017	0.562	22 August 2018 to 21 August 2027	13,200,000	(13,200,000)	-	-
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\$119.4 million as at 30 June 2019 (31 December 2018: HK\$78.8 million).

As at 30 June 2019, addition to the interest-bearing bank and other borrowings amounted to HK\$424.6 million (31 December 2018: HK\$290.0 million), the Group had loans from a director, non-controlling interests and medium term bonds in a total of HK\$65.6 million (31 December 2018: HK\$83.1 million).

As at 30 June 2019, the current ratio (current assets/current liabilities) was 1.28 times (31 December 2018: 1.01 times) and the net current assets amounted to HK\$156.5 million (31 December 2018: net current assets HK\$7.2 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 2019, the Group did not have any material contingent liabilities (31 December 2018: Nil).

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2019 was approximately 2,135 (31 December 2018: 2,169). 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 2019 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 2019.

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 2019.

PUBLIC FLOAT

Reference is made to the announcement of the Company dated on 5 June 2019 and the circular of the Company dated 8 July 2019 in relation to, inter alia, the sale and purchase agreement, the subscription agreement and the concert group agreement referred to in the announcement.

Upon the completion of the subscription agreement and the sale and purchase agreement, the Joint Offerors (as referred to in the Company's announcement dated 5 June 2019) and parties acting in concert with them will be interested in a total of 1,396,038,406 Shares, representing approximately 53.72% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Joint Offerors will then be required to make an unconditional mandatory cash general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Joint Offerors and parties acting in concert with them) pursuant to Rule 26.1 of the Takeovers Code. The Joint Offerors intend for the Company to remain listed on the Stock Exchange. The directors of the Joint Offerors and the new directors to be appointed to the Board (as applicable) will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

RESULTS

The board of Directors (the “Board”) announces the unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018. 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 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited) (Restated)
REVENUE	4	384,948	422,086
Cost of sales		(258,335)	(295,814)
Gross profit		126,613	126,272
Other income and gains	4	13,387	13,251
Selling and distribution expenses		(65,043)	(68,451)
Administrative expenses		(52,473)	(47,578)
Finance costs	6	(9,390)	(10,415)
PROFIT BEFORE TAX	5	13,094	13,079
Income tax expenses	7	–	–
PROFIT FOR THE PERIOD		13,094	13,079

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		12,657	13,924
NON-CONTROLLING INTERESTS		437	(845)
		13,094	13,079
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic		HK0.609 cents	HK0.703 cents
Diluted		N/A	HK0.689 cents

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	13,094	13,079
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange difference arising from translation of foreign operations	121	(13,613)
Total comprehensive income/(loss) for the period	13,215	(534)
Attributable to:		
Owners of the parent	12,767	1,480
Non-controlling interest	448	(2,014)
	13,215	(534)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,070,530	1,043,664
Investment properties		451,861	448,961
Prepaid land lease payments		–	139,286
Goodwill		34,482	34,482
Intangible assets		14,013	15,695
Investment in associate		1,707	1,707
Right-of-use assets		150,911	–
Prepayment		96,630	94,060
Total non-current assets		1,820,134	1,777,855
CURRENT ASSETS			
Inventories		318,932	294,619
Trade receivables	10	96,728	69,131
Prepayments, deposits and other receivables		182,870	170,977
Cash and cash equivalents		119,390	78,836
Total current assets		717,920	613,563
CURRENT LIABILITIES			
Trade payables	11	42,760	99,316
Other payables and accruals		102,047	132,233
Interest-bearing bank and other borrowings		300,488	258,632
Tax payable		116,148	116,148
Total current liabilities		561,443	606,329
NET CURRENT ASSETS		156,477	7,234
TOTAL ASSETS LESS CURRENT LIABILITIES		1,976,611	1,785,089

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,976,611	1,785,089
NON-CURRENT LIABILITIES			
Medium term bonds	12	30,726	30,034
Interest-bearing bank and other borrowings		124,083	31,340
Loan from non-controlling interests		34,916	41,102
Loan from a director		–	12,000
Lease liabilities		11,864	–
Deferred tax liabilities		80,617	80,609
Deferred government grant		46,539	46,536
Total non-current liabilities		328,745	241,621
Net assets		1,647,866	1,543,468
EQUITY			
Equity attributable to owners of the parent			
Share capital		216,547	201,344
Reserves		1,323,112	1,234,365
		1,539,659	1,435,709
Non-controlling interests		108,207	107,759
Total equity		1,647,866	1,543,468

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							Total HK\$'000	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			
At 1 January 2018	199,143	968,546	23,780	136,780	10,027	123,429	(91,527)	1,370,178	93,727	1,463,905
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)
	199,143	968,546	23,780	136,780	10,027	110,985	(77,603)	1,371,658	91,713	1,463,371
Equity-settled share option expense	-	-	5,255	-	-	-	-	5,255	-	5,255
Exercise of share options	1,501	5,283	(1,980)	-	-	-	-	4,804	-	4,804
At 30 June 2018 (unaudited)	200,644	973,829	27,055	136,780	10,027	110,985	(77,603)	1,381,717	91,713	1,473,430
At 1 January 2019	201,344	977,592	33,774	195,736	11,706	53,196	(37,639)	1,435,709	107,759	1,543,468
Profit for the period	-	-	-	-	-	-	12,657	12,657	437	13,094
Other comprehensive income for the period:										
Exchange differences related to foreign operations	-	-	-	-	-	110	-	110	11	121
	201,344	977,592	33,774	195,736	11,706	53,306	(24,982)	1,448,476	108,207	1,556,683
Equity-settled share option expense	-	-	4,217	-	-	-	-	4,217	-	4,217
Exercise of share options	15,203	109,754	(37,991)	-	-	-	-	86,966	-	86,966
At 30 June 2019 (unaudited)	216,547	1,087,346*	-*	195,736*	11,706*	53,306*	(24,982)*	1,539,659	108,207	1,647,866

- * These reserve accounts comprise the consolidated reserves of HK\$1,323,112,000 (31 December 2018: HK\$1,234,365,000) in the interim condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net cash flow used in operating activities	(92,776)	(49,537)
Net cash flow used in investing activities	(61,325)	(26,336)
Net cash flow from financing activities	194,649	47,212
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	40,548	(28,661)
Cash and cash equivalents at beginning of period	78,836	82,182
Effect of foreign exchange rate changes, net	6	(2,195)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	119,390	51,326
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	119,390	51,326

NOTES TO FINANCIAL STATEMENTS

At 30 June 2019

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 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 interim condensed consolidated 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 2018.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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 2018, except for the adoption of new standards effective as of 1 January 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

2.1. Adoption of HKFRS 16

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities and other payables. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.1. Adoption of HKFRS 16 (Continued)

(a) The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) HK\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	150,355
Decrease in prepaid land lease payments	(139,286)
Increase in total assets	11,069
Liabilities	
Increase in other payables	2,220
Increase in lease liabilities	8,849
Increase in total liabilities	11,069

(b) Nature of the effect of adoption of HKFRS 16

The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	HK\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	
Weighted average incremental borrowing rate as at 1 January 2019	4.91%
Discounted operating lease commitments as at 1 January 2019	12,613
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 and low-value assets	(1,544)
Lease liabilities as at 1 January 2019	11,069

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

2.1. Adoption of HKFRS 16 *(Continued)*

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

2.1. Adoption of HKFRS 16 *(Continued)*

Summary of new accounting policies *(Continued)*

Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

2.1. Adoption of HKFRS 16 *(Continued)*

(c) Amounts recognised in the statement of financial position and profit or loss

	Right-of-use assets	Lease liabilities and other payables
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
As at 1 January 2019	150,355	11,069
Additions	4,515	4,515
Depreciation charge	(3,946)	–
Interest expense	–	453
Payments	–	(2,268)
Exchange realignment	(13)	(13)
As at 30 June 2019	150,911	13,756

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 2018: 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue		
Sales of goods	384,948	422,086
Other income and gains		
Bank interest income	8	10
Rental income	9,680	10,431
Sales of scraps	143	590
Fair value gains on investment properties	3,360	–
Others	196	2,220
	13,387	13,251
	398,335	435,337

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited) (Restated)
Cost of goods sold	258,335	295,814
Depreciation of items of property, plant and equipment	31,343	35,704
Amortisation of intangible assets	1,588	934

6. FINANCE COSTS

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest on bank loans and other loans (including medium term bonds)	9,390	10,415

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.

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 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 2019 (six months ended 30 June 2018: 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 2,077,961,617 (six months ended 30 June 2018: 1,980,506,680) 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.

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2019.

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

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parents, used in the basic and diluted earnings per share calculations	12,657	13,924
Number of shares		
Six months ended 30 June		
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	2,077,961,617	1,980,506,680
Effect of dilution—weighted average number of ordinary shares:		
Share options	N/A	40,729,011

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 180 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:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	60,262	36,491
1 to 3 months	23,021	14,668
3 to 6 months	13,445	17,972
	96,728	69,131

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:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	28,392	62,198
1 to 3 months	11,033	19,561
3 to 6 months	2,694	7,922
6 to 12 months	342	2,162
More than 1 year	299	7,473
	42,760	99,316

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:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Carrying amount at 1 January	30,034	28,208
Accrued Interest expenses	1,222	2,336
Paid	(530)	(510)
Carrying amount	30,726	30,034

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 31 May 2019, the Company may further grant 216,546,777 (31 December 2018: 199,142,608) share options, representing approximately 10% (31 December 2018: 9.89%) of the issued share capital of the Company as at 30 June 2019.

14. COMMITMENTS

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	7,796	7,796
Acquisition of equity investment	–	1,138
Acquisition of entities	97,572	–
	105,368	8,934

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

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

Hong Kong, 22 July 2019