



2020

Interim Report

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HK·D SOFA

金骑士 KNIGHT 家居

睿木

爱家

iHOME 爱家

柏林 Berlin

Cappuccino

ROYALE HOME HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code:1198

ROYAL
HOME
皇朝家居

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang (*Chairman*)
Mr. Yang Jun (*Chief Executive Officer*)

Non-Executive Directors

Mr. Wu Zhongming
Mr. Wu Dingliang
Ms. Qin You
Mr. Liu Zhijun

Independent Non-Executive Directors

Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

AUDIT COMMITTEE

Mr. Yue Man Yiu Matthew (*Chairman*)
Mr. Lau Chi Kit
Mr. Chan Wing Tak Kevin

REMUNERATION COMMITTEE

Mr. Lau Chi Kit (*Chairman*)
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

NOMINATION COMMITTEE

Mr. Lau Chi Kit (*Chairman*)
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

COMPANY SECRETARY

Mr. Chui See Lai

AUDITOR

Ernst & Young

SOLICITOR

Jeffrey Mak Law Firm

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
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

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, West Wing
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 outbreak of novel coronavirus pneumonia (COVID-19) across the world caused suspension of global economic activities. Governments of various countries introduced a series of pandemic prevention measures and economic rescue measures to restore normal life (or adapt to a new lifestyle) as well as revive the economy hit hard by COVID-19.

As the COVID-19 outbreak raged, the Group's production and operation activities were affected to varying degrees. In response to the government's anti-pandemic policies, the Group made a series of adjustments in its production and operations to strictly comply with the anti-pandemic requirements. Under the double blow of economic slowdown and the pandemic, the mass consumption sentiment for durable goods had been severely depressed, causing the significant drop in the Group's retail franchise business.

The Group has expanded into the sector of household supplies besides its existing furniture business, in order to provide more quality products to consumers with its one-stop shopping platform. In addition, being the only member of Science City Group engaging in furniture production, the Group has entered into a number of product sales agreement with Science City Group to sell furniture products (together with installation and other ancillary services) to members of Science City Group (excluding the Group) which boosted its turnover and broadened its sales channels for projects in China.

During the six months ended 30 June 2020, revenue decreased by 42.7% to approximately HK\$220.6 million, while gross profit margin dropped from 32.9% to gross loss rate of 5.0%. The Group recorded loss for the period attributable to the owners of the parent company of HK\$131.3 million, as compared to profit for the period attributable to the owners of the parent company of HK\$12.7 million for the same period of last year.

Management System Reform

As stated in the Group's 2019 annual report, the Group manages its department by the division system. The system proved its efficiency and flexibility in the crisis management in response to the sudden COVID-19 outbreak. With the division system, the Group is able to motivate its senior executives to make effective and quick response to the fast-changing economic environment with their expertise, thus allowing the Group to allocate and utilize its resources in a more effective and accurate way.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Brand Management

The Group promoted its brand through popular new media such as Weibo, WeChat, Baidu, Tencent, Sina, home.163, Douyin and other industry featured platforms, driving high-quality traffic to physical stores to support offlines sales. The Group also integrated its product and brand communication strategies and adopted “consumer orientation” strategies to continuously expand the influence of its brand. The Group kept good relationships with major media to maintain and manage its brand in an efficient manner, as well as to respond quickly to market emergencies related to its brand. Ms. Lin Chi Ling, a famous celebrity and movie star in Asia, continued to be the Group’s spokesperson and featured in the Group’s advertisements as well as other marketing activities to promote the Group’s brand.

FINANCIAL REVIEW

Inventory and Prepayments, Deposits and Other Receivables

During the reporting period, the Group’s inventory increased by 0.9% to HK\$298.1 million (31 December 2019: HK\$295.5 million).

Prepayments, deposits and other receivables increased by 12.8% to HK\$99.4 million (31 December 2019: HK\$88.1 million). These were mainly due to increase in rental deposits, land development deposits and prepayment on exhibition expenses.

Working Capital Challenge

The Group had net current assets of HK\$78.1 million during the reporting period (31 December 2019: net current assets of HK\$399.8 million). The decrease in net current assets is mainly attributable to acquisition of investment in associates.

MANAGEMENT DISCUSSION AND ANALYSIS

THE LAND RESUMPTIONS

On 18 June 2020, (i) Guangzhou City Zengcheng District Land Development Reserve Centre (the “Land Reserve Centre”) and Guangzhou City Planning and Natural Resources Bureau (Zengcheng branch) (the “Planning Bureau”), the People’s Government of Shitan Town, Zengcheng District of Guangzhou City (the “Shitan Town Government”) and Guangzhou Yufa Furniture Co., Limited entered into the Land Resumption Agreement of Yufa, pursuant to which it was agreed that Land Use Right of Land Parcel Yufa will be resumed by the government; (ii) the Land Reserve Centre, the Planning Bureau, Shitan Town Government and Guangzhou Fuli Furniture Co., Limited entered into the Land Resumption Agreement of Fuli in accordance with relevant PRC laws and regulations, pursuant to which it was agreed that Land Use Right of Land Parcel Fuli will be resumed by the government. The Group is expected to receive compensation from the government for the Land Parcels of Yufa and Fuli determined with reference to a bidding process at a public land auction to be conducted by the government. Please refer to the announcement of the Company dated 18 June 2020 for details of the land resumptions.

The Group had since early 2020 commenced the preparation and implementation of the relocation of its manufacturing facilities on the Land Parcels of Yufa and Fuli to other manufacturing sites rented by the Group within the Zengcheng area. As at 30 June 2020, the relocation was substantially completed. It is estimated that the Group’s production capacity and earning ability would not be materially and adversely affected by land resumptions.

PROSPECTS

Looking into the second half of 2020, the global market continues to be ravaged by COVID-19. The Chinese economy will also be affected by the uncontrolled global epidemic, impacting its overall consumer market. It is expected that consumers will postpone their furniture purchase or downgrade their consumption, leading to severe and continuous challenges to the domestic furniture industry. Despite these, the Group will continue to expand its different business and develop new businesses models, including undertaking engineering projects from the member companies of the Science City Group for bulk furniture sales. Furthermore, the Group will leverage its existing business as its core and expand vertically to upstream and downstream businesses, in order to expand its business scale and diversify its operating risk.

In July 2020, the Group announced an acquisition of 20% equity of Science City (Guangzhou) Finance and Leasing Co., Limited* (科學城(廣州)融資租賃有限公司) at the total sum payable of RMB72,500,000, with an aim to provide the Group an opportunity to tap in the finance lease business and expand a source of stable income.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (Continued)

Despite various negative factors affecting the global economic outlook, the Group will continue to develop and enlarge its business scale by both organic growth and external acquisition opportunities.

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

As at 30 June 2020, 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	Notes	Number of Shares and underlying Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note c)
		Directly beneficially owned	Through controlled corporation/ family interests	Through jointly held by other persons (Note a)		
Mr. Tse Kam Pang ("Mr. Tse")	(b)	348,948,047	447,580,269	1,299,462,964	2,095,991,280	80.66
Mr. Yue Man Yiu Matthew		3,000,000	-	-	3,000,000	0.12

MANAGEMENT DISCUSSION AND ANALYSIS

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

Long positions in shares and underlying shares of the Company: *(Continued)*

Notes:

- (a) On 24 May 2019, Science City (Hong Kong) Investment Co. Limited ("SCHK"), Mr. Tse, Crisana International Inc. ("Crisana"), Charming Future Holdings Limited ("Charming Future") and Leading Star Global Limited ("Leading Star") entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 80.66% of the issued share capital of the Company.
- (b) 348,948,047 Shares (representing 13.43% of the issued share capital of the Company), were directly beneficially owned by Mr. Tse, 51,971,227 Shares were held by Leading Star, 185,840,120 Shares were held by Crisana and 209,768,922 Shares were held by Charming Future. Leading Star, Crisana and Charming Future are all companies wholly and beneficially owned by Mr. Tse. 1,299,462,964 Shares was deemed to be interested by Mr. Tse as a result of being a party acting-in-concert with SCHK. As such, Mr. Tse was deemed to be interested in the 2,095,991,280 Shares.
- (c) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2020, 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	Notes	Number of Shares and underlying Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note f)
		Directly beneficially owned	Interest held through controlled corporation	Interest held jointly with other persons (Note e)		
Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團 有限公司)	(a)	–	2,095,991,280	–	2,095,991,280	80.66
SCHK	(a)	1,299,462,964	–	796,528,316	2,095,991,280	80.66
Crisana	(b)	185,840,120	–	1,910,151,160	2,095,991,280	80.66
Charming Future	(c)	209,768,922	–	1,886,222,358	2,095,991,280	80.66
Leading Star	(d)	51,971,227	–	2,044,020,053	2,095,991,280	80.66

Notes:

- SCHK is wholly owned by Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司), a company established in the PRC with limited liability on 21 August 1984. As such, Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司) was deemed to be interested in 2,095,991,280 shares of the Company under Part XV of the SFO. 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).
- Crisana is wholly owned by Mr. Tse Kam Pang, a Director of the Company.
- Charming Future is wholly owned by Mr. Tse Kam Pang, a Director of the Company.
- Leading Star is wholly owned by Mr. Tse Kam Pang, a Director of the Company.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

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

Long position: *(Continued)*

Notes: *(Continued)*

- (e) On 24 May 2019, SCHK, Mr. Tse, Leading Star, Crisana and Charming Future entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 80.66% of the issued share capital of the Company.
- (f) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, 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 1 June 2020. Please refer to the circular and the announcements of the Company dated 20 April 2012 and 28 April 2020 respectively for details.

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and cash equivalents amounted to HK\$183.2 million as at 30 June 2020 (31 December 2019: HK\$440.5 million).

As at 30 June 2020, the interest-bearing bank and other borrowings amounted to HK\$280.7 million (31 December 2019: HK\$212.8 million), the Group had non-controlling interests and medium term bonds in a total of HK\$67.5 million (31 December 2019: HK\$67.0 million).

As at 30 June 2020, the current ratio (current assets/current liabilities) was 1.15 times (31 December 2019: 1.88 times) and the net current assets amounted to HK\$78.1 million (31 December 2019: net current assets HK\$399.8 million).

CAPITAL STRUCTURE

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

USE OF NET PROCEEDS FROM THE SHARE SUBSCRIPTION AND CHANGE IN USE OF PROCEEDS

On 24 May 2019, the Company and SCHK entered into a subscription agreement, pursuant to which SCHK agreed to subscribe for, in cash, 433,093,554 new shares at a price of HK\$1.02 per share under specific mandate. The net proceeds from the share subscription received by the Company were approximately HK\$440.2 million.

Due to the outbreak of the COVID-19 pandemic, the market condition was adversely affected by the negative sentiment in the durable goods consumption sector. The Directors considered the current market condition does not favor an expansion strategy and it was also noted that the Group has been making a substantial net loss for the period ended 30 June 2020. As a result, the Board has recommended to re-allocate the remaining unutilized net proceeds, which were originally allocated for "Expenditure for establishing warehouses/new distribution spot on the Group's land in northern China" of approximately HK\$60 million to supplement the general working capital for the daily operation of the Group. The Directors consider this would be more beneficial to the Group as it would provide funds to meet the current operation needs of the Group and provide more buffer to cope with the economic uncertainty in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM THE SHARE SUBSCRIPTION AND CHANGE IN USE OF PROCEEDS (Continued)

The net proceeds from the share subscription had been applied and revised as follows:

Proposed use of proceeds	Original allocation of the net proceeds (HK\$ million)	Revised use of proceeds (HK\$ million)	Amount utilised up to 30 June 2020 (HK\$ million)	Unutilised proceeds as at 30 June 2020 (HK\$ million)	Expected timeline
Repaying certain loans of the Company	100.0	100.0	100.0	-	-
Acquisition of land	30.0	30.0	30.0	-	-
Construction of new production facilities	130.0	130.0	15.0	115.0	2 August 2019 to 1 August 2021
Imported machinery for new production facilities	80.0	80.0	20.0	60.0	2 August 2019 to 1 August 2021
Expenditure for establishing warehouses/new distribution spot on the Group's land in northern China	60.0	-	-	-	-
General working capital	40.2	100.2	100.2	-	-
Total	440.2	440.2	265.2	175.0	

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 2020, the Group did not have any material contingent liabilities (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF COMPANY NAME AND LOGO

Pursuant to a special resolution passed at the annual general meeting held on 1 June 2020, the name of the Company was changed from “Royale Furniture Holdings Limited” to “Royale Home Holdings Limited” and change of name for identification purpose only in Chinese of the Company from “皇朝傢俬控股有限公司” to “皇朝家居控股有限公司”. The change of Company name was approved by the Registrar of Companies in the Cayman Islands on 10 June 2020. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 17 August 2020 confirming the registration of the new name of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The logo of the Company will be changed as  with effect from 27 August 2020.

For details of the change of company name and logo, please refer to the announcements of the Company dated 23 April 2020 and 24 August 2020 and the circular of the Company dated 28 April 2020 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2020 was approximately 1,385 (2019: 1,702). 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

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020 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 2020.

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 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

PUBLIC FLOAT

Following the close of the Offers on 29 August 2019, 398,570,046 Shares were held by the public (within the meanings of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"), representing approximately 15.34% of the total number of issued Shares. Accordingly, less than 25% of the issued Shares (being the minimum prescribed percentage applicable to the Company) were held by the public and the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules.

On 29 August 2019, an application was made by the Company to the Stock Exchange for a temporary waiver from the strict compliance with Rules 8.08(1)(a) of the Listing Rules. On 5 September 2019, the Stock Exchange had granted the waiver to the Company for a period from 29 August 2019 (i.e. closing date of the Offers) to 28 November 2019 (the "Waiver"). On 28 November 2019, an application was made by the Company to the Stock Exchange for an extension of the Waiver. The Stock Exchange had granted the Company an extension of the Waiver until 15 April 2020.

On 2 February 2020, the public float of the Company has risen to 19.22% of the issued share capital of the Company after completion of the sale of 101,000,000 Shares to independent third parties.

On 8 April 2020, an application was made by the Company to the Stock Exchange for a further extension of the Waiver. The Stock Exchange had granted the Company a further extension of the Waiver until 15 July 2020. On 15 July 2020, a further application was made by the Company to the Stock Exchange for an extension of the Waiver.

Based on information that is publicly available to the Company and within the knowledge of the Directors as at 24 August 2020, 499,570,046 (representing 19.22% of the issued share capital of the Company) are in public hands. The minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was unsatisfied.

RESULTS

The Board of directors (the "Board") of Royale Home Holdings Limited (the "Company") announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2020 (the "Period") together with the comparative figures for the corresponding period in 2019. The interim results for the Period 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 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
REVENUE	4	220,639	384,948
Cost of sales		(231,781)	(258,335)
Gross (loss)/profit		(11,142)	126,613
Other income and gains	4	9,602	13,387
Selling and distribution expenses		(57,322)	(65,043)
Administrative expenses		(63,888)	(52,473)
Finance costs	6	(7,102)	(9,390)
Share of profits and losses of: Associates		(2,086)	–
(LOSS)/PROFIT BEFORE TAX	5	(131,938)	13,094
Income tax expenses	7	–	–
(LOSS)/PROFIT FOR THE PERIOD		(131,938)	13,094

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
Notes		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
<hr/>			
ATTRIBUTABLE TO:			
		(131,291)	12,657
		(647)	437
<hr/>			
		(131,938)	13,094
<hr/>			
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
	9		
Basic		HK(5.052) cents	HK0.609 cents
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Diluted		N/A	N/A
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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 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	(131,938)	13,094
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	(27,184)	121
Total comprehensive (loss)/income for the period	(159,122)	13,215
Attributable to:		
Owners of the parent	(155,514)	12,767
Non-controlling interests	(3,608)	448
	(159,122)	13,215

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		968,611	1,006,694
Investment properties		442,502	442,502
Right-of-use assets		326,669	269,391
Goodwill		34,482	34,482
Intangible assets		9,633	11,975
Investment in associates		282,424	90,596
Prepayments		111,856	147,147
Total non-current assets		2,176,177	2,002,787
CURRENT ASSETS			
Inventories		298,144	295,544
Trade receivables	10	25,807	22,427
Prepayments, deposits and other receivables		99,441	88,118
Pledged deposits		–	9,787
Cash and cash equivalents		183,198	440,468
Total current assets		606,590	856,344
CURRENT LIABILITIES			
Trade payables	11	52,841	55,349
Other payables and accruals		129,447	130,355
Interest-bearing bank and other borrowings		193,087	117,728
Tax payable		153,154	153,154
Total current liabilities		528,529	456,586
NET CURRENT ASSETS		78,061	399,758
TOTAL ASSETS LESS CURRENT LIABILITIES		2,254,238	2,402,545

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	2,254,238	2,402,545
NON-CURRENT LIABILITIES		
Medium term bonds	32,567	31,775
Interest-bearing bank and other borrowings	87,581	95,078
Loan from non-controlling interests	34,923	35,273
Lease liabilities	27,833	7,568
Deferred tax liabilities	68,570	70,038
Deferred government grant	43,326	44,253
Total non-current liabilities	294,800	283,985
Net assets	1,959,438	2,118,560
EQUITY		
Equity attributable to owners of the parent		
Share capital	259,856	259,856
Reserves	1,561,918	1,717,432
Non-controlling interests	1,821,774	1,977,288
	137,664	141,272
Total equity	1,959,438	2,118,560

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium account	Share option reserve	Asset valuation reserve	Statutory reserve	Exchange fluctuation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
At 1 January 2020	259,856	1,482,883	-	165,224	13,140	26,495	29,690	1,977,288	141,272	2,118,560
Loss for the period	-	-	-	-	-	-	(131,291)	(131,291)	(647)	(131,938)
Other comprehensive income for the period:										
Exchange differences related to foreign operations	-	-	-	-	-	(24,223)	-	(24,223)	(2,961)	(27,184)
At 30 June 2020 (unaudited)	259,856	1,482,883*	-*	165,224*	13,140*	2,272*	(101,601)*	1,821,774	137,664	1,959,438

* These reserve accounts comprise the consolidated reserves of HK\$1,561,918,000 (31 December 2019: HK\$1,717,432,000) in the interim condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net cash flow used in operating activities	(79,181)	(92,776)
Net cash flow used in investing activities	(241,358)	(61,325)
Net cash flow from financing activities	65,108	194,649
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(255,431)	40,548
Cash and cash equivalents at beginning of period	440,468	78,836
Effect of foreign exchange rate changes, net	(1,839)	6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	183,198	119,390
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	183,198	119,390

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 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 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

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

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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 2019: Nil).

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	220,639	384,948
Other income and gains		
Bank interest income	1,039	8
Rental income	6,813	9,680
Sales of scraps	1,110	143
Fair value gains on investment properties	–	3,360
Others	640	196
	9,602	13,387
	230,241	398,335

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of goods sold	231,781	258,335
Depreciation of items of property, plant and equipment	37,735	31,343
Amortisation of intangible assets	2,029	1,588

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

6. FINANCE COSTS

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on bank loans and other loans and lease liabilities (including medium term bonds)	7,102	9,390

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	
	2020 HK\$'000 (Unaudited)	2019 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 have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/profit for the Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,598,561,326 (six months ended 30 June 2019: 2,077,961,617) in issue during the Period.

The calculation of the diluted (loss)/earnings per share amounts is based on the (loss)/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 (loss)/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 2020.

The calculations of basic and diluted (loss)/earnings per share are based on:

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(Loss)/Earnings		
(Loss)/Profit attributable to ordinary equity holders of the parents, used in the basic and diluted (loss)/earnings per share calculations	(131,291)	12,657

	Number of shares Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted (loss)/earnings per share calculation	2,598,561,326	2,077,961,617
Effect of dilution – weighted average number of ordinary shares	N/A	N/A

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

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.

Included in the Group's trade receivables are amounts due from the fellow subsidiaries of HK\$101,000 (2019: amounts due from ultimate holding company of HK\$44,000), which are unsecured, interest-free and repayable on demand.

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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 1 month	23,876	20,627
1 to 3 months	1,600	429
3 to 6 months	331	1,371
	25,807	22,427

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 1 month	41,230	32,293
1 to 3 months	7,659	14,416
3 to 6 months	1,177	2,344
6 to 12 months	962	1,212
More than 1 year	1,813	5,084
	52,841	55,349

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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Carrying amount at 1 January	31,775	30,034
Accrued Interest expenses	1,302	2,471
Paid	(510)	(730)
Carrying amount	32,567	31,775

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

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 1 June 2020, the Company may further grant 259,856,132 (31 December 2019: 216,546,777) share options, representing approximately 10% (31 December 2019: 10%) of the issued share capital of the Company as at 30 June 2020.

14. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following transactions with related parties during the period:

		For the six months ended 30 June	
	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Fellow subsidiaries:			
Sales of products	(i), (iii)	365	–
Loan from a fellow subsidiary	(ii), (iii)	63,519	–

Notes:

- (i) The sales to the fellow subsidiaries were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The loan from a fellow subsidiary included in interest-bearing bank and other borrowings is unsecured, interest bearing at a fixed rate at 6% per annum and is repayable within 7 days.
- (iii) The related party transactions are also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

Other than those disclosed elsewhere in the interim condensed consolidated financial statements, the outstanding balances with related parties as follows:

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables due from:			
Ultimate holding company	(i)	–	44
Fellow subsidiaries	(i)	101	–
Prepayment to:			
Non-controlling interests	(i)	22,850	22,371
Fellow subsidiaries	(i)	–	39
Loan/other borrowings from:			
Fellow subsidiary	(ii)	63,519	–
Non-controlling interests	(iii)	34,923	35,273

Notes:

- (i) This balance is unsecured, interest-free and has no fixed terms of repayment.
- (ii) The loan from a fellow subsidiary included in interest-bearing bank and other borrowings is unsecured, interest bearing at a fixed rate at 6% per annum and is repayable within 7 days.
- (iii) The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum and will not be repayable in one year.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

14. RELATED PARTY TRANSACTIONS (Continued)

- (c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	4,637	5,705
Equity-settled share option benefits	–	825
Post-employment benefits	9	9
Total compensation paid to key management personnel	4,646	6,539

15. COMMITMENTS

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

	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Contracted, but not provided for: Acquisition of equity investment	–	6,711
	–	6,711

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

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

16. EVENTS AFTER THE REPORTING PERIOD

On 28 July 2020, Comfort Sofa Limited (舒適梳化有限公司) (the "Purchaser"), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with China Finance Leasing Limited (中國金融租賃有限公司) (the "Vendor"), pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 20% of the equity interest in Science City (Guangzhou) Finance and Leasing Co., Limited* (科學城(廣州) 融資租賃有限公司) ("SCFL"), for a total sum payable of RMB72,500,000.

By Order of the Board

Tse Kam Pang

Chairman and Executive Director

Hong Kong, 24 August 2020

* *For identification purpose only*