



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

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

INTERIM REPORT 2021



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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. Liang Zhihua
Mr. Teoh Chun Ming

Independent non-executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

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

Executive Committee

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

Company Secretary

Mr. Lai Kwok Keung, Alex

Authorised Representatives

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

Auditors

KPMG, Public Interest Entity Auditor
Registered in accordance with
the Financial Reporting Council Ordinance

Principal Bankers

Shunde Rural Commercial Bank
China Merchants Bank
Industrial and Commercial Bank of China

Registered Office

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

CORPORATE INFORMATION (CONTINUED)

Principal Place of Business in Hong Kong

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

Head Office in the PRC

1 Zhi Cheng Road
Daliang Street
Shunde, Foshan City
Guangdong Province
the PRC

Office in Macau

Alameda Dr. Carlos D'Assumpcao
No. 249, 13 Andar, L&M13 Edif.
China Civic Plaza
Macau

Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Website

www.nature-home.com.hk

Stock Code

2083

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of last year, the outbreak of novel coronavirus (COVID-19) pandemic across the People's Republic of China (the "PRC") and around the world struck a devastating blow to the economic and marketing activities in various countries. In the second half of 2020, due to the fact that the epidemic prevention and control measures in the PRC had been effective, and vaccines had become more widely available, the COVID-19 pandemic was coming under control in the PRC. The retail market for home decoration products in the PRC has generally returned to normal.

During the six months ended 30 June 2021 (the "Period"), the retail business of the Group in the PRC has resumed to normal and to the level before the outbreak of COVID-19 pandemic. Thus, the growth of the Group's project division business had slowed down as compared to retail business. The Group's overall sales recorded an increase for the Period as compared with the corresponding period of last year, representing an increase of 66.0% from approximately RMB1,404,512,000 in the corresponding period of last year to approximately RMB2,331,364,000 for the Period.

Discloseable Transaction — Disposal of Shares in Zhejiang Yongyu

On 23 April 2021, Nature Home (China) Limited (大自然家居(中國)有限公司) (a wholly-owned subsidiary of the Company, the "Seller") entered into a sale and purchase agreement with the Henglin Home Stock Limited (恒林家居股份有限公司) (the "Purchaser"), pursuant to which the Seller agreed to sell, and the Purchaser agreed to acquire, 10,306,765 shares of Zhejiang Yongyu Home Stock Limited (浙江永裕家居股份有限公司) (formerly known as Zhejiang Yongyu Bamboo Stock Limited (浙江永裕竹業股份有限公司)) (the "Target Company"), representing approximately 11.22% of the share capital of the Target Company, for a total consideration of RMB120,000,000 (the "Disposal").

The Disposal constituted a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further details in relation to the Disposal are set out in the announcement of the Company dated 23 April 2021.

The completion of the Disposal took place on 21 May 2021.

1. Flooring Products

Benefiting from the resumption of retail business to pre-outbreak levels, the Group's total revenue in respect of flooring products increased by 90.7% from approximately RMB975,452,000 in the corresponding period of last year to approximately RMB1,859,854,000 for the Period.

The business of manufacturing and sale of flooring products

During the Period, given the recovery of the Group's flooring products business, together with benefits from the sales contribution of the newly setup Stone Plastic Composite ("SPC") flooring plant in Cambodia and the newly acquired engineered flooring plant in the PRC since the second half year of 2020, the Group's total revenue from the production and distribution of flooring products increased by 92.3% from approximately RMB946,464,000 in the corresponding period of last year to approximately RMB1,819,932,000 for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of the flooring's sales network, the Group has extensive sales coverage across the PRC. As at 30 June 2021, the total number of flooring stores was 3,366 (31 December 2020: 3,395). The Group currently owns a total of twelve flooring plants, which are mainly engaged in the manufacturing of laminated floorings, engineered floorings and SPC floorings.

Provision of trademarks and distribution network for flooring products

The Group's flooring products under the "Nature" brand are manufactured by its self-owned production plants and through its exclusive authorised manufacturers. Such authorised manufacturers solely manufacture our branded flooring products and sell these products to the distributors within our distribution network in an exclusive and direct manner, for which we charge them trademarks and distribution network usage fees. During the Period, part of the engineered flooring products were produced in self-owned production plants, which offset the increase in related usage fees. The revenue generated from trademarks and distribution network usage fees for flooring products increased by 37.7% to approximately RMB39,922,000 from that of the same period of last year.

2. Customised Home Decoration Products

The customised home decoration products of the Group mainly comprise of wooden doors, wardrobes and cabinets. Generally, the Group will manufacture the customised products based on the customers' requirements upon receipt of purchase orders. During the Period, the retail sales for customised home decoration products recorded an increase and total revenue increased by 9.9% from approximately RMB429,060,000 for the same period of last year to approximately RMB471,510,000 for the Period.

The business of manufacturing and sale of wooden doors

The revenue of wooden door business was stable at approximately RMB189,759,000 as compared to the same period last year. As at 30 June 2021, the Group owned a total of 850 (31 December 2020: 895) wooden door stores. The Group currently owns three wooden door production plants.

The business of manufacturing and sale of wardrobes and cabinets

The revenue of wardrobes and cabinets business was stable at approximately RMB186,283,000 as compared to the same period last year. As at 30 June 2021, the Group owned a total of 63 (31 December 2020: 67) wardrobe and cabinet stores. The Group currently owns two production plants for wardrobe and cabinet products.

Provision of trademarks and distribution network for customised products

During the Period, there was no revenue from trademarks and distribution network usage fees for customised products.

Other sales business

During the Period, the sales revenue from other home decoration products (namely comprehensive decoration services and products) increased by 100.4% to approximately RMB95,468,000 as compared to the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospect

In the second half of 2021, there are still many uncertainties about global and Chinese economies, such as the recurrence of the COVID-19 pandemic around the world and the regulation policies on the real estate market in the PRC. In the short term, the Group's businesses, especially the domestic business, are largely affected by these uncertainties. Taking into account the credit risks arising from the real estate market regulation policies, we will make appropriate adjustment to the proportion of our project business in the second half of the year, thus the benefits of recovery of our retail business is expected to be offset to a certain extent.

For the international business, the Group completed the strategic layout of international production and sales in 2020. In addition, the Group's production plant for SPC flooring products in Cambodia has commenced production in the second half year of 2020, and such investments contributed to the sales of the Group during the Period. We continue to fully take advantage of the international layout of production capacity and access to international sales channels.

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

Despite the Group's business in the PRC has recovered to the pre-pandemic level during the Period and the overall business maintained steady growth, the home decoration products industry in the PRC still faced difficult market conditions in the second half of the year due to the regulation policies in the PRC. Through the efforts over the past few years, the Group has completed its deployment in production capacity of foreign operations. In the future, the Group will focus on the capacity optimization to reorganize production lines in the PRC, so as to build a whole-chain closed-loop system, enrich product diversity and enhance profitability under the strategic layout with various home decoration product brands.

Financial Review

Revenue

For the Period, we generate revenue from two business segments: (1) manufacturing and sale of flooring products; and (2) manufacturing and sale of customised home decoration products.

"Manufacturing and sale of flooring products" represents the revenue generated from (i) sales of self-produced flooring products; (ii) sales of trading flooring products; and (iii) licensing fee income from flooring products manufactured by authorised manufacturers which sell flooring products under the Group's trademarks and distribution network.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

“Manufacturing and sale of customised home decoration products” represents the revenue generated from (i) sales of self-produced home decoration products other than flooring products, including wooden doors, wardrobes and cabinets; (ii) sales of trading customised home decoration products; and (iii) licensing fee income from customised home decoration products manufactured by authorised manufacturers which sell customised home decoration products under the Group’s trademarks and distribution network.

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

Revenue	For the six months ended 30 June 2021		2020		Revenue Growth rate %
	RMB'000	% of total revenue	RMB'000	% of total revenue	
Manufacturing and sale of flooring products					
— sales of goods	1,819,932	78.1	946,464	67.4	92.3
— provision of trademarks and distribution network	39,922	1.7	28,988	2.1	37.7
	1,859,854	79.8	975,452	69.5	90.7
Manufacturing and sale of customised home decoration products					
— sales of goods	471,510	20.2	427,690	30.4	10.2
— provision of trademarks and distribution network	—	—	1,370	0.1	N/A
	471,510	20.2	429,060	30.5	9.9
Total	2,331,364	100.0	1,404,512	100.0	66.0

The overall revenue increased by 66.0% from approximately RMB1,404,512,000 for the corresponding period of 2020 to approximately RMB2,331,364,000 for the Period.

The business of the Group in the PRC has resumed to normal and to the level before the outbreak of COVID-19 pandemic. Revenue from the segment of manufacturing and sale of flooring products increased by 90.7% from approximately RMB975,452,000 for the corresponding period of 2020 to approximately RMB1,859,854,000 for the Period.

Revenue from the segment of manufacturing and sale of customised home decoration products increased by 9.9% from approximately RMB429,060,000 for the corresponding period of 2020 to approximately RMB471,510,000 for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit

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

Gross Profit	For the six months ended 30 June				Growth rate %
	2021		2020		
	RMB'000	GP%	RMB'000	GP%	
Manufacturing and sale of flooring products					
— sales of goods	425,488	23.4	210,234	22.2	102.4
— provision of trademarks and distribution network	36,482	91.4	26,897	92.8	35.6
	461,970	24.8	237,131	24.3	94.8
Manufacturing and sale of customised home decoration products					
— sales of goods	99,017	21.0	86,760	20.3	14.1
— provision of trademarks and distribution network	—	N/A	1,271	92.8	N/A
	99,017	21.0	88,031	20.5	12.5
Total	560,987	24.1	325,162	23.2	72.5
EBITDA	168,064	7.2	61,724	4.4	172.3

The overall gross profit increased by 72.5% from approximately RMB325,162,000 for the corresponding period of 2020 to approximately RMB560,987,000 for the Period and the overall gross profit margin increased from 23.2% to 24.1% for the Period.

The segment of manufacturing and sale of flooring products contributed a gross profit of approximately RMB461,970,000 for the Period, representing an increase of 94.8%, compared to approximately RMB237,131,000 for the corresponding period of 2020. The gross profit margin maintained at 24.8% for the Period.

The segment of manufacturing and sale of customised home decoration products contributed a gross profit of approximately RMB99,017,000 for the Period, representing an increase of 12.5%, compared to approximately RMB88,031,000 for the corresponding period of 2020. The gross profit margin maintained at 21.0% for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EBITDA

The EBITDA increased by 172.3% from approximately RMB61,724,000 for the corresponding period of 2020 to approximately RMB168,064,000 for the Period and the EBITDA margin increased from 4.4% to 7.2% for the Period.

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

Other Income

Other income consists primarily of rental income from operating leases and government grants which are subject to the discretion of the relevant authorities. Other income increased by RMB12,177,000 from approximately RMB17,613,000 for the corresponding period of 2020 to approximately RMB29,790,000 for the Period. It was mainly attributable to the net gain on disposal of other property.

Distribution Costs

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

Distribution costs were approximately RMB247,945,000 for the Period, representing an increase of approximately 40.8%, compared to approximately RMB176,076,000 for the corresponding period of 2020. It was in line with the increase in revenue.

The percentage of distribution costs to revenue decreased from 12.5% for the corresponding period of 2020 to 10.6% for the Period.

Administrative Expenses

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

Administrative expenses were approximately RMB146,030,000 for the Period, representing an increase of approximately 14.9%, compared to approximately RMB127,074,000 for the corresponding period of 2020. It was mainly due to the increase in staff costs.

The percentage of administrative expenses to revenue decreased from 9.0% for the corresponding period of 2020 to 6.3% for the Period.

Other Operating Expenses

Other operating expenses increased by RMB17,121,000 from approximately RMB22,776,000 for the corresponding period of 2020 to approximately RMB39,897,000 for the Period. It was mainly due to the impairment losses on plant and machinery and the increase in net foreign exchange loss.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net Finance Costs

Net finance costs represent the difference between finance income and finance costs. Finance income consists primarily of interest income on bank deposits and certain customers. Finance costs consist primarily of interest expenses on bank and other loans. Net finance costs decreased from approximately RMB15,279,000 for the corresponding period of 2020 to approximately RMB14,213,000 for the Period.

Finance income increased from approximately RMB25,812,000 for the corresponding period of 2020 to approximately RMB26,340,000 for the Period.

Finance costs decreased from approximately RMB41,091,000 for the corresponding period of 2020 to approximately RMB40,553,000 for the Period.

Income Tax

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

Income tax was approximately RMB29,198,000 for the Period compared to approximately RMB4,822,000 for the corresponding period of 2020, which was the net effect of the current income tax of approximately RMB38,453,000 and the net deferred tax income of approximately RMB9,255,000. The increase in income tax was mainly due to the increase in profit of our PRC operations during the Period.

Profit Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, the profit attributable to equity shareholders of the Company was approximately RMB49,274,000 for the Period, compared to the loss of approximately RMB30,545,000 for the corresponding period of 2020.

Liquidity

Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations; and (ii) proceeds from loans and borrowings. The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

During the Period, the Group used net cash of approximately RMB34,177,000 in operating activities (six months ended 30 June 2020: RMB466,159,000) and had a net proceeds from bank and other loans of approximately RMB176,334,000 (six months ended 30 June 2020: RMB585,927,000).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net Current Assets and Working Capital Sufficiency

As at 30 June 2021, net current assets was approximately RMB1,209,255,000, representing an increase of 34.6%, compared to approximately RMB898,272,000 as at 31 December 2020. The current ratios as at 30 June 2021 and 31 December 2020 were 1.3 and 1.3, respectively.

Cash Conversion Cycle

	Turnover days		Change (days)
	For rolling 12 months ended		
	30 June 2021	31 December 2020	
Trade and bills receivables and contract assets	164	187	(23)
Inventories	88	97	(9)
Trade and bills payables	(149)	(187)	38
Net	103	97	6

As at 30 June 2021, trade and bills receivables and contract assets turnover days decreased by 23 days to 164 days.

As at 30 June 2021, inventories turnover days decreased by 9 days to 88 days.

As at 30 June 2021, trade and bills payables turnover days decreased by 38 days to 149 days.

The Group has business dealings with China Evergrande Group and its subsidiaries ("Evergrande") which purchased flooring products from the Group. As at 30 June 2021, the Group has net trade receivables from Evergrande amounted to approximately RMB662 million, of which the net amount due for payment was approximately RMB60.1 million. The Group is discussing with Evergrande on the payment arrangement of the trade receivables. The Group has noted that there have been negative news in the market about the Evergrande's ability to repay. The Group is unable to determine whether Evergrande's future development will have a negative impact on the future profits and financial position of the Group for the time being. The Group will continue to pay attention to the relevant developments and to make appropriate announcement(s) for the relevant significant impacts if and when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Resources

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

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Bills payables	666,795	571,796
Bank loans:		
Current	1,173,302	1,264,762
Non-current	205,609	167,288
Other loans:		
Current	—	5,141
Non-current	221,103	—
Sub-total	2,266,809	2,008,987
Less:		
Cash and cash equivalents	611,166	509,385
Restricted deposits	389,846	414,067
Adjusted net debt	1,265,797	1,085,535
Total equity	2,540,160	2,435,685
Adjusted gearing percentage	49.8%	44.6%

Our adjusted gearing percentage, which are derived by dividing adjusted net debt by total equity of the Group, were 49.8% and 44.6% as at 30 June 2021 and 31 December 2020, respectively.

Adjusted net debt is defined as total debts which include bills payables and interest-bearing loans, less cash and cash equivalents and restricted deposits.

During the six months ended 30 June 2021, the PRC government provided 3 loans with an aggregate amount of RMB275,000,000 (the “other loan”) to the Group.

Two of these loans are unsecured, interest free for the first 5 years and bear annual interest at one-year Loan Prime Rate published by the People’s Bank of China for the remaining periods and repayable in 2027 and 2028. The another one is unsecured, interest free and repayable in 2029.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group recorded the other loan by its present value of RMB221,103,000 at a discount rate of 4.65% which is announced by reference to the borrowing rate for loans over 5 years quoted by People's Bank of China at initial recognition.

Bank loans and Charges of Assets

Particulars of bank loans of the Group and charges on the Group's assets as at 30 June 2021 are set out in note 14 to the interim financial report.

Capital Expenditures

Capital expenditures amounted to approximately RMB175,932,000 for the Period (six months ended 30 June 2020: RMB104,110,000). It primarily related to purchases of property, plant and equipment.

Commitments and Contingent liabilities

(a) Capital commitments

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Contracted for	37,492	60,481

(b) Contingent liabilities

The Group continues to deny any liability in respect of the claims. Based on the advice of the Group's legal counsels, the directors of the Group believes it is not probable that the courts will fine against them. No provision has therefore been made in respect of claims.

Foreign Currency Risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), United States Dollars ("USD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and Polish Zloty ("PLN"). On the other hand, our bank and other loans, cash and cash equivalents are primarily in RMB, USD, EUR, Hong Kong Dollars ("HKD") and PLN. The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The Group does not have any hedging policy for foreign currencies in place and does not currently hedge transactions undertaken in foreign currencies. However, the Board will remain alert to any relevant risks and, if necessary, consider to hedge any material potential foreign exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Employees

As at 30 June 2021, the Group had 5,970 employees (at 31 December 2020: 5,606). Relevant staff cost was approximately RMB300,212,000 for the Period compared to approximately RMB226,377,000 for the corresponding period of 2020. The Group will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, share option schemes and share award scheme.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies or Joint Ventures

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

Subsequent Events

On 16 August 2021, a wholly-owned subsidiary of the Company, 大自然家居(中國)有限公司 (Nature Home (China) Limited*) (“Nature Home China”), entered into two sale and purchase agreements (the “Evergrande Agreements”) with 河南恒大家居產業園有限公司 (Henan Evergrande Home Industrial Park Limited*) (“Henan Evergrande”) and 深圳恒大材料設備有限公司 (Shenzhen Evergrande Materials Equipment Limited*) (“Shenzhen Evergrande”), both being members of Evergrande, pursuant to which Nature Home China agreed to purchase, and Henan Evergrande agreed to sell, each of 40% of the entire equity interests in 河南恒大大自然家居有限公司 (Henan Evergrande Nature Home Limited*) (“JV A”) and 河南恒大大自然木業有限公司 (Henan Evergrande Nature Wood Industry Limited*) (“JV B”) (both JV A and JV B were held as to 60% by Nature Home China and 40% by Henan Evergrande as at the date of the Evergrande Agreements), respectively (the “Evergrande Acquisitions”) and completion of the Evergrande Acquisitions took place on 6 September 2021. The total aggregate consideration for the Evergrande Acquisitions was RMB80.0 million and was settled by way of the delivery of the non-interest bearing commercial bills in the amount of RMB80.0 million held by Nature Home China and issued by Shenzhen Evergrande in respect of the outstanding trade receivables of the same amount owed by Shenzhen Evergrande to Nature Home China. Immediately prior to completion of the Evergrande Acquisitions, each of JV A and JV B was held as to 60% by Nature Home China and 40% by Henan Evergrande. Upon completion of the Evergrande Acquisitions, JV A and JV B became wholly-owned subsidiaries of the Group and Henan Evergrande ceased to be a shareholder of both JV A and JV B.

* For identification purposes only

Save as disclosed above and in the section headed “Proposed Privatisation of the Company” below, no other significant events took place subsequent to 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future Plans for Material Investments

Save as disclosed in this report, there was no specific plan for material investments and acquisition of material capital assets as at 30 June 2021.

Proposed Privatisation of the Company

Reference is made to (i) the joint announcement of the Company and New Modern Home Limited (the “Offeror”) dated 27 July 2021 (the “Joint Announcement”); and (ii) the scheme document dated 14 September 2021 jointly issued by the Offeror and the Company (the “Scheme Document”). Capitalised terms used in this section shall bear the same meanings as those defined in the Scheme Document unless the context requires otherwise.

On 26 July 2021, the Offeror requested the Board to put forward the Proposal to the Independent Shareholders regarding the proposed privatisation of the Company by way of the Scheme under Section 86 of the Companies Act.

Under the Scheme, if the Scheme becomes effective, the Scheme Shareholders will receive from the Offeror the cancellation price of HKD1.70 in cash for each Scheme Share as consideration for the cancellation of the Scheme Shares held.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled (with the equivalent number of New Shares being issued as fully paid to the Offeror) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective. Please refer to the Joint Announcement for further details in relation to Proposal.

The Proposal is conditional upon the satisfaction or (where applicable) waiver of the Conditions. Accordingly, the Proposal may or may not be implemented, the Scheme may or may not become effective and the Option Offer may or may not become unconditional. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company.

Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2021, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Director	Number of shares held		Total	Percentage of shareholding (Note 1)
	Personal Interest	Corporate Interest		
Mr. Se Hok Pan (<i>Chairman and President</i>)	20,000,000 1,500,000 (Note 2)	663,768,000 (Note 3)	685,268,000	49.74%
	21,500,000			
Ms. Un Son I	1,500,000 (Note 2)	663,768,000 (Note 3)	665,268,000	48.29%
Mr. She Jian Bin	1,500,000 1,500,000 (Note 2)	Nil	3,000,000	0.22%
	3,000,000			
Mr. Liang Zhihua	2,500,000 15,000,000 (Note 2)	Nil	17,500,000	1.27%
	17,500,000			
Mr. Teoh Chun Ming	1,500,000 (Note 2)	Nil	1,500,000	0.11%
Professor Li Kwok Cheung, Arthur	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Chan Siu Wing, Raymond	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Ho King Fung, Eric	1,000,000 (Note 2)	Nil	1,000,000	0.07%

Notes:

- Based on 1,377,783,990 shares of the Company in issue as at 30 June 2021.
- These interests represent the share options granted to the directors of the Company pursuant to the terms of the share option schemes adopted by the Company, which entitle them to subscribe for shares of the Company. Details of such options are disclosed under the paragraph headed "Share Option Schemes" below.
- 663,768,000 shares are owned by Freewings Development Co., Ltd.. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.
- All interests stated are long positions.

OTHER INFORMATION (CONTINUED)

Substantial Shareholders

As at 30 June 2021, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares held		Percentage of shares in issue (Note 1)
		Long position	Short position	
Freewings Development Co., Ltd. (Note 2)	Beneficial owner	663,768,000	—	48.18%
Team One Investments Limited (Note 2)	Interest in controlled corporations	663,768,000	—	48.18%
Trader World Limited (Note 2)	Interest in controlled corporations	663,768,000	—	48.18%
DeHua TB New Decoration Material Co., Ltd (Note 3)	Beneficial owner	269,999,990	—	19.60%
Weng Hou Investment Company Limited	Beneficial owner	92,300,000	—	6.70%

Notes:

1. Based on 1,377,783,990 shares of the Company in issue as at 30 June 2021.
2. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Mr. Se Hok Pan and Ms. Un Son I are directors of Freewings Development Co., Ltd..
3. DeHua TB New Decoration Material Co., Ltd is a company incorporated in the PRC and the shares of which are listed on the Shenzhen Stock Exchange.

Save as disclosed above, the Directors are not aware that there is any party who, as at 30 June 2021, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

OTHER INFORMATION (CONTINUED)

Rights to Acquire Company's Securities

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

Share Option Schemes

Share Option Scheme

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

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

OTHER INFORMATION (CONTINUED)

Details of the share options movements during the six months ended 30 June 2021 under the Share Option Scheme are as follows:

Category of participants	Date of Grant	No. of shares involved in the options outstanding at the beginning of the Period	Exercised during the Period	Lapsed during the Period	No. of shares involved in the options outstanding at Period end
Directors of the Company					
Se Hok Pan	4 January 2012	1,500,000	—	—	1,500,000
Un Son I	4 January 2012	1,500,000	—	—	1,500,000
She Jian Bin	4 January 2012	1,500,000	—	—	1,500,000
Liang Zhihua	4 January 2012	15,000,000	—	—	15,000,000
Teoh Chun Ming	4 January 2012	1,500,000	—	—	1,500,000
Li Kwok Cheung, Arthur	4 January 2012	1,000,000	—	—	1,000,000
Chan Siu Wing, Raymond	4 January 2012	1,000,000	—	—	1,000,000
Ho King Fung, Eric	4 January 2012	1,000,000	—	—	1,000,000
Employees					
Employees	4 January 2012	37,600,000	—	—	37,600,000
	8 October 2013	11,200,000	—	(1,600,000)	9,600,000
Total		72,800,000	—	(1,600,000)	71,200,000

Notes:

- (1) For options granted on 4 January 2012, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HKD1.45 per share.
- (2) For options granted on 8 October 2013, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HKD1.61 per share.

Save as disclosed above, no option under the Share Option Scheme has been granted, cancelled or lapsed during the six months ended 30 June 2021.

OTHER INFORMATION (CONTINUED)

Compliance with the Corporate Governance Code

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

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the six months ended 30 June 2021.

Audit Committee

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

Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond (*Chairman*)

Mr. Ho King Fung, Eric

Non-executive Director

Mr. Teoh Chun Ming

The chief responsibilities of the Audit Committee include making recommendations to the board on the appointment, reappointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of the resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of internal control system of the Group. The Audit Committee has reviewed and discussed the interim results for the six months ended 30 June 2021 and this report.

OTHER INFORMATION (CONTINUED)

Remuneration Committee

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

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (*Chairman*)

Mr. Ho King Fung, Eric

Non-executive Director

Mr. Teoh Chun Ming

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

Nomination Committee

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

Executive Director

Mr. Se Hok Pan (*Chairman*)

Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond

Mr. Ho King Fung, Eric

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

OTHER INFORMATION (CONTINUED)

Corporate Governance Committee

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

Executive Director

Mr. Se Hok Pan (*Chairman*)

Non-executive Director

Mr. Teoh Chun Ming

Independent Non-executive Director

Mr. Ho King Fung, Eric

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

Purchases, Sale or Redemption of Listed Securities

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Interim Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

Change in Directors’ Biographical Details under Rule 13.51B(1) of the Listing Rules

There has been no change in the Directors’ biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	3	2,331,364	1,404,512
Cost of sales		(1,770,377)	(1,079,350)
Gross profit		560,987	325,162
Other income	5(a)	29,790	17,613
Distribution costs		(247,945)	(176,076)
Administrative expenses		(146,030)	(127,074)
Research and development costs		(4,261)	(3,847)
Impairment losses on receivables		(61,699)	(27,106)
Other operating expenses	5(b)	(39,897)	(22,776)
Profit/(loss) from operations		90,945	(14,104)
Finance income	6(a)	26,340	25,812
Finance costs	6(a)	(40,553)	(41,091)
Net finance costs		(14,213)	(15,279)
Profit/(loss) before taxation	6	76,732	(29,383)
Income tax	7	(29,198)	(4,822)
Profit/(loss) for the period		47,534	(34,205)
Attributable to:			
Equity shareholders of the Company		49,274	(30,545)
Non-controlling interests		(1,740)	(3,660)
Profit/(loss) for the period		47,534	(34,205)
Earnings/(loss) per share (RMB):	8		
Basic and diluted		0.036	(0.022)

The notes on pages 30 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Profit/(loss) for the period	47,534	(34,205)
Other comprehensive income/(loss) for the period (after tax and reclassification adjustments)		
Item that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (non-recycling)	(23,891)	5,832
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of the financial statements of entities not using RMB as functional currency	12,602	(9,405)
Other comprehensive loss for the period	(11,289)	(3,573)
Total comprehensive income/(loss) for the period	36,245	(37,778)
Attributable to:		
Equity shareholders of the Company	38,034	(34,884)
Non-controlling interests	(1,789)	(2,894)
Total comprehensive income/(loss) for the period	36,245	(37,778)

The notes on pages 30 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Investment properties	9	201,345	221,572
Other property, plant and equipment	9	1,084,500	1,020,603
		1,285,845	1,242,175
Right-of-use assets	9	208,464	211,056
Intangible assets		12,566	13,501
Goodwill		9,846	9,946
Interest in associates		7,363	7,404
Equity investment designated at fair value through other comprehensive income (FVOCI)	10	59,844	91,076
Deposits, prepayments and other receivables		129,614	52,473
Deferred tax assets		125,843	111,321
		1,839,385	1,738,952
Current assets			
Inventories	11	918,904	811,387
Trade and bills receivables	12	2,214,604	2,145,942
Contract assets		250,340	251,296
Deposits, prepayments and other receivables		280,193	267,327
Financial assets measured at fair value through profit or loss (FVPL)		21,200	—
Restricted deposits		389,846	414,067
Cash and cash equivalents		611,166	509,385
		4,686,253	4,399,404
Current liabilities			
Trade and bills payables	13	1,655,842	1,614,053
Contract liabilities		147,886	129,094
Deposits received, accruals and other payables		421,162	438,695
Bank and other loans	14	1,173,302	1,269,903
Lease liabilities		24,454	26,033
Current taxation		54,352	23,354
		3,476,998	3,501,132
Net current assets		1,209,255	898,272
Total assets less current liabilities		3,048,640	2,637,224

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2021 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current liabilities			
Bank and other loans	14	426,712	167,288
Lease liabilities		21,199	27,612
Deferred income		55,854	—
Deferred tax liabilities		4,715	6,639
		508,480	201,539
NET ASSETS		2,540,160	2,435,685
CAPITAL AND RESERVES	15		
Share capital		8,987	8,987
Reserves		2,405,649	2,302,844
Total equity attributable to equity shareholders of the Company		2,414,636	2,311,831
Non-controlling interests		125,524	123,854
TOTAL EQUITY		2,540,160	2,435,685

The notes on pages 30 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Statutory surplus reserve	Exchange reserve	Fair value reserve (non-recycling)	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	8,987	835,920	84	222,612	(11,298)	5,068	37,107	1,213,351	2,311,831	123,854	2,435,685
Changes in equity for the six months ended 30 June 2021											
Profit for the period	—	—	—	—	—	—	—	49,274	49,274	(1,740)	47,534
Other comprehensive income	—	—	—	—	12,651	(23,891)	—	—	(11,240)	(49)	(11,289)
Total comprehensive income	—	—	—	—	12,651	(23,891)	—	49,274	38,034	(1,789)	36,245
Share options forfeited during the period (note 15(a))	—	—	—	—	—	—	(1,004)	1,004	—	—	—
Acquisition of subsidiary	—	—	—	—	—	—	(1,148)	—	(1,148)	(41)	(1,189)
Acquisition of non-controlling interests	—	—	—	—	—	—	(5,500)	—	(5,500)	3,500	(2,000)
Disposal of financial assets	—	—	—	—	—	—	—	71,419	71,419	—	71,419
Balance at 30 June 2021	8,987	835,920	84	222,612	1,353	(18,823)	29,455	1,335,048	2,414,636	125,524	2,540,160

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company											Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other treasury shares RMB'000	Capital redemption reserve RMB'000	Statutory surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000			
Balance at 1 January 2020	8,998	837,796	(2,382)	84	217,621	(12,736)	5,378	53,523	1,183,391	2,291,673	94,929	2,386,602	
Changes in equity for the six months ended 30 June 2020													
Loss for the period	—	—	—	—	—	—	—	—	(30,545)	(30,545)	(3,660)	(34,205)	
Other comprehensive income	—	—	—	—	—	(10,171)	5,832	—	—	(4,339)	766	(3,573)	
Total comprehensive income	—	—	—	—	—	(10,171)	5,832	—	(30,545)	(34,884)	(2,894)	(37,778)	
Share options cancelled and forfeited during the period (note 15(a))	—	—	—	—	—	—	—	(14,722)	14,722	—	—	—	
Sale of equity interests in a subsidiary	—	—	—	—	—	—	—	—	(8)	(8)	908	900	
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	—	32,000	32,000	
Balance at 30 June 2020 and 1 July 2020	8,998	837,796	(2,382)	84	217,621	(22,907)	11,210	38,801	1,167,560	2,256,781	124,943	2,381,724	
Changes in equity for the six months ended 31 December 2020													
Profit for the period	—	—	—	—	—	—	—	—	48,444	48,444	(21)	48,423	
Other comprehensive income	—	—	—	—	—	11,609	(6,142)	—	—	5,467	(1,209)	4,258	
Total comprehensive income	—	—	—	—	—	11,609	(6,142)	—	48,444	53,911	(1,230)	52,681	
Capital injection from non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	450	450	
Sales of equity interests in a subsidiary	—	—	—	—	—	—	—	(8)	8	—	—	—	
Liquidation of subsidiaries	—	—	—	—	—	—	—	—	—	—	(309)	(309)	
Transfer to statutory surplus reserve	—	—	—	—	4,991	—	—	—	(4,991)	—	—	—	
Share options cancelled and forfeited during the period (note 15(a))	—	—	—	—	—	—	—	(1,686)	1,686	—	—	—	
Disposal of financial assets	—	—	—	—	—	—	—	—	644	644	—	644	
Sales of treasury shares	—	(491)	2,382	—	—	—	—	—	—	1,891	—	1,891	
Purchase and cancel of own shares	(11)	(1,385)	—	—	—	—	—	—	—	(1,396)	—	(1,396)	
Balance at 31 December 2020	8,987	835,920	—	84	222,612	(11,298)	5,068	37,107	1,213,351	2,311,831	123,854	2,435,685	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Operating activities		
Cash used in operations	(4,124)	(432,801)
Tax paid	(30,053)	(33,358)
Net cash used in operating activities	(34,177)	(466,159)
Investing activities		
Payment for the non-current asset	(175,932)	(104,110)
Proceeds from the non-current asset	11,588	7,810
Received from the acquisition of subsidiary	3,886	—
Payment for acquisition of equity investment classified as FVOCI	(6,200)	(25,000)
Proceeds from sales of financial assets at FVOCI	125,567	—
Payment for the purchase of FVPL	(20,000)	—
Dividend received from investments	921	—
Proceeds from sales of equity interest in a subsidiary	—	900
Interest received	46,372	4,589
Net cash used in investing activities	(13,798)	(115,811)
Financing activities		
Proceeds from bank and other loans	1,017,302	980,476
Repayment of bank and other loans	(840,968)	(394,549)
Capital element of lease rentals paid	(12,764)	(13,864)
Interest element of lease rentals paid	(1,414)	(1,854)
Proceeds of contribution from non-controlling interests holder	—	32,000
Payment for acquisition of non-controlling interests holder	(2,000)	—
Interest paid	(37,182)	(39,237)
Net cash flows generated from restricted deposit	24,221	33,366
Net cash generated from financing activities	147,195	596,338
Net increase in cash and cash equivalents	99,220	14,368
Cash and cash equivalents at 1 January	509,385	540,185
Effect of foreign exchanges rates changes	2,561	944
Cash and cash equivalents at 30 June	611,166	555,497

The notes on pages 30 to 52 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 31 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Nature Home Holding Company Limited (the “Company”) and its subsidiaries (together, the “Group”) since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to this financial report for the current accounting period:

- Amendment to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Revenue and segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (flooring products and customised home decoration products) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment.

The Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Manufacturing and sale of flooring products: this segment manufactures and sells flooring products and generates licensing fee income from products manufactured by authorised manufacturers which sell flooring products under the Group's trademarks and distribution network.
- Manufacturing and sale of customized home decoration products: this segment manufactures and sells other home decoration products, including wooden doors, wardrobes, cabinets and wall papers, provides home decoration services and generates licensing fee income from other home decoration products manufactured by authorised manufacturers which sell products under the Group's trademarks and distribution network.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and segment reporting (Continued)

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service line		
• Manufacturing and sale of flooring products		
– Sale of goods	1,819,932	946,464
– Provision of trademark and distribution network	39,922	28,988
• Manufacturing and sale of customised home decoration products		
– Sale of goods	471,510	427,690
– Provision of trademark and distribution network	–	1,370
	2,331,364	1,404,512
Disaggregated by geographic location of customers		
– People's Republic of China (the "PRC"), Hong Kong and Macau	1,969,262	1,145,318
– USA	251,243	172,537
– Other countries	110,859	86,657
	2,331,364	1,404,512

The Group's customer base is diversified and only one customer with whom transactions have exceeded 10% of the Group's revenues for the six months ended 30 June 2021 (six months ended 30 June 2020: one). For the six months ended 30 June 2021, revenues from sales of home decoration products to this customer amounted to approximately RMB240,072,000 (six months ended 30 June 2020: RMB212,848,000) and arose only in the PRC by geographical region in which the home decoration products division is active.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and segment reporting (Continued)

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

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

For the six months ended 30 June	Manufacturing and sale of flooring products		Manufacturing and sale of customised home decoration products		Total	
	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disaggregated by timing or revenue recognition						
Point in time	1,654,277	790,539	137,666	98,441	1,791,943	888,980
Over time	165,655	155,925	333,844	329,249	499,499	485,174
Subtotal of sales of goods	1,819,932	946,464	471,510	427,690	2,291,442	1,374,154
Provision of trademark and distribution network	39,922	28,988	—	1,370	39,922	30,358
Revenue from external customers	1,859,854	975,452	471,510	429,060	2,331,364	1,404,512
Inter-segment revenue	11,228	1,908	11,984	6,498	23,212	8,406
Reportable segment revenue	1,871,082	977,360	483,494	435,558	2,354,576	1,412,918
Reportable segment profit (adjusted EBITDA)	116,411	40,492	38,108	13,417	154,519	53,909
Additions to non-current segment assets during the period	234,960	128,996	28,280	11,839	263,240	140,835
Impairment of plant and machine	13,164	—	—	—	13,164	—
As at 30 June/31 December Reportable segment assets	5,702,017	4,478,592	1,810,245	1,520,663	7,512,262	5,999,255
Reportable segment liabilities	3,535,760	2,532,718	1,185,571	1,199,805	4,721,331	3,732,523

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and segment reporting (Continued)

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Reportable segment profit	154,519	53,909
Elimination of inter-segment profits	(376)	(8)
Reportable segment profit derived from Group's external customers and joint venture	154,143	53,901
Other income	29,790	17,613
Depreciation and amortisation	(77,119)	(75,828)
Net finance cost	(14,213)	(15,279)
Impairment losses on non-current assets	(13,164)	—
Unallocated head office and corporate expense	(2,705)	(9,790)
Consolidated profit/(loss) before taxation	76,732	(29,383)

4 Seasonality of operations

Based on past experiences, the Group's principal activity of selling home decoration products achieves higher sales in the fourth quarter and lower sales in the first quarter, compared to average quarter sales in the year, due to increased demand in home decoration market before year end and decreased demand during the long Spring Festival holiday period. As a result, the Group typically reports lower revenue and segment results for the first half of the year, than the second half.

For the twelve months ended 30 June 2021, the Group reported revenue of RMB4,858,284,000 (twelve months ended 30 June 2020 RMB3,549,204,000), and gross profit of RMB1,233,697,000 (twelve months ended 30 June 2020: RMB905,589,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Other income/other operating expenses

(a) Other income

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Government grants (i)	7,962	3,069
Net gain on disposal of other property, plant and equipment (note 9(b))	7,202	—
Rental income from operating leases	7,769	10,513
Others	6,857	4,031
	29,790	17,613

(i) Government grants for the six months ended 30 June 2021 mainly represented unconditional cash awards granted by the government authorities in the PRC.

(b) Other operating expenses

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Net loss on disposal of other property, plant and equipment (note 9(b))	—	3,058
Donations	2,154	1,158
Depreciation and related cost of lease-out assets	9,068	10,156
Net foreign exchange loss	11,931	5,585
Impairment losses on plant and machinery	13,164	—
Others	3,580	2,819
	39,897	22,776

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 Profit before taxation

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

(a) Finance income and finance costs

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Interest income on bank deposits and others	(26,340)	(25,812)
Finance income	(26,340)	(25,812)
Interest expense on bank loans and others	39,139	39,237
Interest on lease liabilities	1,414	1,854
Finance costs	40,553	41,091

(b) Other items

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Depreciation		
— owned property, plant and equipment	60,086	58,307
— right-of-use assets	14,886	15,404
Amortisation	2,147	2,117
Impairment losses on plant and machinery (note 9)	13,164	—
Inventory write-down and losses net of reversals (note 11)	12,672	16,925
Expense relating to short-term leases	7,372	5,657

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 Income tax

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax		
Provision for income tax	37,040	14,321
Withholding tax	564	3,650
Over-provision in respect of prior years	849	382
	38,453	18,353
Deferred tax		
Reversal of temporary differences	(9,255)	(13,531)
	29,198	4,822

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The Group's subsidiaries incorporated in the USA were subject to federal income tax at 21% (21% for the six months ended 30 June 2020) and state income tax for the six months ended 30 June 2021.
- (iii) The Group's subsidiaries incorporated in Hong Kong were subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2021 (16.5% for the six months ended 30 June 2020) except that the first HKD2 million estimated assessable profits calculated at 8.25% for the six months ended 30 June 2021 (8.25% for the six months ended 30 June 2020).
- (iv) The Group's subsidiaries incorporated in Macau were subject to Macau Complementary Tax. The provision for Macau Complementary Tax for the six months ended 30 June 2021 and 2020 is calculated at the rate of 12%, of which assessable profits of the first MOP600,000 is exempted from tax.
- (v) The statutory income tax rate applicable to the Group's subsidiaries in the PRC is 25% for the six months ended 30 June 2021 and 2020 except for those set out below:
 - (a) Certain subsidiaries enjoy the preferential income tax rate for small enterprise of 2.5%–10% for the six months ended 30 June 2021 (5%–10% for the six months ended 30 June 2020).
 - (b) Guangxi Baijing Flooring Co., Ltd. ("Guangxi Baijing") is recognised as qualified enterprise located in the western region of the PRC. Guangxi Baijing enjoys preferential enterprise income tax rate of 15% from 2021 to 2030, pursuant to Announcement [2020] No. 23 of the Ministry of Finance, State Taxation Administration and National Development and Reform Commission.
 - (c) Nature (Zhongshan) Wood Industry Co., Ltd. has qualified as a High and New Technology Enterprise ("HNTE") in 2016 and entitled to preferential corporate income tax rate of 15% until 2021.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 Income tax (Continued)

Notes: (Continued)

- (vi) The Group's subsidiaries incorporated in Poland were subject to income tax rate of 19% for the six months ended 30 June 2021 and 2020. One of the subsidiaries is entitled to an income tax relief up to 19% of its total qualified investment.
- (vii) The Group's subsidiaries incorporated in Cambodia are recognised as Qualified Investment Project ("QIP") and are exempted from income tax for export businesses for the six months ended 30 June 2021 and 2020.

8 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of RMB49,274,000 (six months ended 30 June 2020: loss of RMB30,545,000) and the weighted average of 1,377,784,000 ordinary shares (six months ended 30 June 2020: 1,377,172,000) in issue during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2021 '000	2020 '000
Issued ordinary shares at 1 January	1,377,784	1,379,382
Treasury shares	—	(2,210)
Weighted average number of ordinary shares at 30 June	1,377,784	1,377,172

(b) Diluted earnings/(loss) per share

During the six months ended 30 June 2021 and 2020, the effect of the Company's outstanding share options was anti-dilutive. Therefore, diluted earnings/(loss) per share were the same as the basic earnings/(loss) per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 Investment properties, other property, plant and equipment and right-of-use assets

(a) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into an agreement for land use right, and a number of lease agreements for use of warehouses, retail stores and machinery, and therefore recognised the additions to right-of-use assets of RMB15,833,000.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2021, the Group acquired items of plant and machinery with a cost of RMB136,235,000 (six months ended 30 June 2020: RMB128,753,000). Items of plant, machinery and right-of-use assets with a net book value of RMB15,014,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB9,459,000), resulting in a gain on disposal of RMB7,202,000 (note 5(a)) (loss on disposal for six months ended 30 June 2020: RMB3,058,000 (note 5(b))).

(c) Impairment losses

During the six months ended 30 June 2021, a number of machines were physically damaged. The Group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down to their recoverable amount of nil. An impairment loss of RMB13,164,000 for the six months ended 30 June 2021, was recognised in "other expense". The estimates of recoverable amount were based on the machines' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry, adjusted for differences such as remaining useful lives. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

(d) Assets pledged

As at 30 June 2021, investment properties, other property, plant and equipment and right-of-use assets with carrying amount of RMB158,595,000, RMB370,844,000 and RMB105,773,000 (31 December 2020: RMB162,171,000, RMB333,841,000 and RMB169,259,000) respectively were pledged for bank loans (note 14).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

10 Other financial assets

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Designated as fair value through other comprehensive income		
– Unlisted	56,200	81,583
– Listed	3,644	9,493
	59,844	91,076

(a) Designated as fair value through other comprehensive income

	Equity securities RMB'000
Balance at 1 January 2021	91,076
Addition	6,200
Acquired in business combination	25,000
Disposals	(30,612)
Change in fair value recognised in other comprehensive income	(31,776)
Exchange difference	(44)
Balance at 30 June 2021	59,844

11 Inventories

During six months ended 30 June 2021, RMB12,672,000 (for six months ended 30 June 2020: RMB16,925,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of recognition of a write-down of inventories to the estimated net realisable value.

As at 30 June 2021, inventories in amount of RMB19,459,000 (31 December 2020: RMB24,533,000) are used to secure bank loans (note 14(iii)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 Trade and bills receivables

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 month	469,908	331,200
1 to 3 months	487,422	657,224
3 to 6 months	316,521	449,034
6 to 12 months	683,545	588,479
Over 12 months	257,208	120,005
	2,214,604	2,145,942

As at 30 June 2021, trade debtors of RMB108,042,000 (31 December 2020: trade receivables of RMB169,083,000) were pledged to banks to secure bank loans obtained by the Group (note 14).

Trade and bills receivables are due within 30 to 365 days from the date of billing. Debtors with balances past due, the Group will request debtors to settle all outstanding balances or negotiate the payment terms. Normally, the Group does not obtain collateral from customers.

13 Trade and bills payables

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 month	704,881	648,570
1 to 3 months	560,897	520,234
3 to 6 months	261,693	320,724
6 to 12 months	39,889	34,210
Over 12 months	88,482	90,315
	1,655,842	1,614,053

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Bank and other loans

At 30 June 2021, the bank and other loans were repayable as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current		
Bank loans		
— After 1 year but within 2 years	145,519	142,898
— After 2 years but within 5 years	60,090	24,390
	205,609	167,288
Other loans		
— After 2 years but within 5 years	21,323	—
— After 5 years	199,780	—
	221,103	—
Sub-total	426,712	167,288
Current		
Bank loans	1,173,302	1,264,762
Other loans	—	5,141
	1,173,302	1,269,903
	1,600,014	1,437,191

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Bank and other loans (Continued)

At 30 June 2021, the bank and other loans were secured as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Bank loans (i)		
Secured	1,073,481	956,144
Unsecured	305,430	475,906
	1,378,911	1,432,050
Other loans		
Secured	—	5,141
Unsecured (ii)	221,103	—
	221,103	5,141
Total	1,600,014	1,437,191

Notes:

- (i) At 30 June 2021, the Group has secured bank loans amounting to RMB1,073,481,000 (31 December 2020: RMB956,144,000), of which:
- approximately RMB143,342,000 (31 December 2020: RMB106,842,000) of secured bank loans were secured by assets of the Group and guaranteed by certain joint venture partners on the joint and several guarantees;
 - approximately RMB162,511,000 (31 December 2020: RMB129,967,000) of secured bank loans were secured by 100% equity interests of subsidiaries;
 - approximately RMB757,728,000 (31 December 2020: RMB719,335,000) of secured loans (the "collateral loans") were solely secured by assets of the Group; and
 - approximately RMB9,900,000 (31 December 2020: Nil) of secured loans were secured by a property owned by the ultimate controlling shareholder of the Company and guaranteed by several guarantees.
- (ii) During the six months ended 30 June 2021, the PRC government provided 3 loans with an aggregate amount of RMB275,000,000 (the "other loan") to the Group.

Two of these loans are unsecured, interest free for the first 5 years and bear annual interest at one-year Loan Prime Rate ("LPR") published by the People's Bank of China for the remaining periods and repayable in 2027 and 2028.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Bank and other loans (Continued)

Notes: (Continued)

(ii) (Continued)

The another one is unsecured, interest free and repayable in 2029.

The Group recorded the other loan by its present value of RMB221,103,000 at a discount rate of 4.65% which is announced by reference to the borrowing rate for loans over 5 years quoted by People's Bank of China at initial recognition.

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Restricted deposits	162,000	182,984
Other property, plant and equipment (note 9)	370,844	333,841
Right-of-use assets (note 9)	105,773	169,259
Investment properties (note 9)	158,595	162,171
Trade and bills receivables (note 12)	108,042	169,083
Inventories (note 11)	19,459	24,533
	924,713	1,041,871

(iv) Parts of the Group's banking facilities, amounted to RMB1,114,973,000 (31 December 2020: RMB906,264,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2020 and 30 June 2021, none of the covenants relating to drawn down facilities had been breached except as described below:

At 30 June 2021, the covenants relating to drawn down facilities amounted to RMB116,494,000 (31 December 2020: RMB117,824,000) due in 2024 had been breached. Accordingly, such bank loans amounted to RMB87,363,000 (31 December 2020: RMB85,305,000) became payable on demand and have been classified as current in nature as at 30 June 2021.

In August 2021, the Group entered a supplemental agreement with financial institution to update the covenants relating to certain of the Group's financial ratios. As at 31 August 2021, none of the covenants relating to drawn down facilities had been breached. The Group regularly monitors its compliance with these covenants and continuously manages its liquidity to satisfy daily operation.

(v) The unutilised banking facilities as at 30 June 2021 amounted to RMB621,044,000 (31 December 2020: RMB831,143,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Bank and other loans (Continued)

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

	At 30 June 2021		At 31 December 2020	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	4.20%	274,120	4.34%	247,803
Fixed rate instruments				
Bank loans	4.63%	1,104,791	4.83%	1,184,247
Other loans	4.65%	221,103	4.25%	5,141
Total borrowings		1,600,014		1,437,191
Fixed rate borrowings as a percentage of total borrowings		83%		83%

15 Capital, reserves and dividends

(a) Share option scheme

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 Capital, reserves and dividends (Continued)

(a) Share option scheme (Continued)

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

	Six months ended 30 June			
	2021		2020	
	Weighted average exercise price HKD	Number of options '000	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the period	1.47	72,800	1.73	88,800
Expired during the period	—	—	3.38	(12,000)
Forfeited during the period	1.61	(1,600)	1.61	(800)
Outstanding at the end of the period	1.47	71,200	1.47	76,000
Exercisable at the end of the period	1.47	71,200	1.47	76,000

The share options outstanding at 30 June 2021 and 31 December 2020 had an exercise price of HKD1.45–1.61 and a weighted-average remaining contractual life of 0.76 year (31 December 2020: 1.29 years). No options were exercised during the six months ended 30 June 2021 and 2020.

During the six months ended 30 June 2021, no share options (six months ended 30 June 2020: RMB14,379,000) in respect of expired share options under the Pre-IPO Plan.

During the six months ended 30 June 2021, the Group reversed RMB1,004,000 (six months ended 30 June 2020: RMB343,000) in respect of forfeited share options from several resigned staffs.

(b) Dividends

The Board does not propose any payment of interim dividends for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

16 Financial risk management and fair values

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2021	Fair value measurements as at 30 June 2021 categorised into		
	RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
<i>Assets:</i>				
Non-trading listed equity securities	3,644	3,644	—	—
Unlisted equity securities	56,200	—	—	56,200
Wealth management product	21,200	—	—	21,200

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

16 Financial risk management and fair values (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
<i>Assets:</i>				
Non-trading listed equity securities	9,493	9,493	—	—
Unlisted equity securities	81,583	—	—	81,583

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. Unlisted equity securities and wealth management product were categorised into Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Unlisted equity securities:		
At 1 January	81,583	750
Disposals	(25,045)	(1,620)
Addition	6,200	25,000
Acquired in business combination	25,000	—
Transfer from Level 1	—	47,205
Net changes in fair value recognised in other comprehensive income during the period/year	(31,538)	10,248
At 30 June/31 December	56,200	81,583

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

16 Financial risk management and fair values (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

The fair value of wealth management product is determined using the discounted cash flow and the significant unobservable input used in the fair value measurement is the expected yield rate. The fair value measurement is positively correlated to the expected yield rate. As at 30 June 2021, it is estimated that with all other variables held constant, an increase/decrease in the expected yield rate by 1% would have increased/decreased the Group's profit by RMB200,000.

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

The carrying amounts of the Group's financial instruments carried at cost are not materially different from their fair values as at 31 December 2020 and 30 June 2021.

17 Commitments and Contingent liabilities

(a) Capital commitments

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Contracted for	37,492	60,481

(b) Contingent liabilities

The Group continues to deny any liability in respect of the claims. Based on the advice of the Group's legal counsels, the directors of the Group believe it is not probable that the courts will fine against them. No provision has therefore been made in respect of claims.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Acquisition of a subsidiary

On 26 January 2021, the Group acquired 100% of the equity interest of Guangdong Youzhong Home Company Limited (“Youzhong Home”, a subsidiary of Dajia Property Management Company Limited (“Dajia Property Management”) which is held by the controlling shareholders of the Company), which is a trading company with principal activities of sales of flooring and customised home decoration products, at a consideration of RMB9,500,000.

	Fair value on date of acquisition RMB'000
Property, plant and equipment	120
Intangible assets	102
FVOCI	25,000
Inventories	3,466
Trade and bills receivables	12,927
Deposits, prepayments and other receivables	16,542
Cash and cash equivalents	13,386
Deferred tax assets	550
Trade and bills payables	(13,428)
Bank and other loans	(45,000)
Deposits received, accruals and other payables	(5,354)
Non-controlling interest	41
Total identifiable net assets acquired	8,352
Consideration transferred	9,500
Other reserve recognised	1,148
Cash paid for the year	9,500
Cash and cash equivalents of the subsidiary	(13,386)
Net cash inflow	(3,886)

The revenue and profit included in the consolidated statement of profit or loss from the date of obtaining control to 30 June 2021 contributed by Youzhong Home was RMB36,545,000 of revenue and RMB209,000 of loss.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 Material related party transactions

(a) Key management personnel compensation

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Short-term employee benefits	5,573	5,504
Post-employment benefits	25	24
	5,598	5,528

(b) Related party transactions and balances

	Income/(expenditure) Six months ended 30 June		Amount due from/(to) At	
	2021 RMB'000	2020 RMB'000	30 June 2021 RMB'000	At 31 December 2020 RMB'000
Provision of trademark and distribution network (i)	—	457	—	1,863
Purchases of goods (ii)	(1,335)	(869)	(2,171)	(1,235)
Receiving of transportation services (iii)	(29,139)	(28,691)	(3,615)	(6,895)
As a leasee (iv)	(1,784)	(1,851)	683	1,248
As a lessor (v)	374	406	31	15
Sales of land (vi)	—	—	2,420	—
Others	215	—	573	130

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 Material related party transactions (Continued)

(b) Related party transactions and balances (Continued)

Notes:

- (i) In March 2019, the Group entered into a trademark licensing agreement with Youzhong Home. A non-exclusive right is granted to Youzhong Home to use the trademark in connection with its production, distribution and sale of licensed products.

In January 2021, the Group entered into an agreement to acquire the 100% equity interest of Youzhong Home.
- (ii) The Group entered into a purchase agreement with Dajia Property Management and its subsidiaries ("Dajia Group") to purchase certain consumables for promotion.
- (iii) The Group outsourced transportation service to one of its associates, Jiawayun (Foshan) Supply Chain Management Company Limited ("Jiawayun").
- (iv) In April 2019, the Group entered into a three-year lease agreement with Dajia for a production plant. The amount of rent payable is RMB324,000 per month, which was determined with reference to market price. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of RMB9,929,000.
- (v) The Group earned rental income from certain related parties by leasing out the offices in the PRC.
- (vi) The Group entered into an agreement with Nature America S.A.C. to sell a parcel of land in Peru.

20 Non-adjusting events after the reporting period

Subsequent to the end of the reporting period, the Group announced a proposal for privatization of the Company by New Modern Home Limited (the "Offeror") on July 27, 2021. As at the announcement date, the Company had 1,377,783,990 shares in issue, of which 292,121,000 shares were held by Independent Shareholders. The maximum amount of cash required for the proposal would be approximately HKD532,295,700, which will be financed by the Offeror's internal cash resources.