Tree Holdings Limited
齊家控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8395)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board of the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of TREE Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company and its subsidiaries (collectively, the "**Group**"). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to approximately HK$85.4 million for the year ended 31 March 2019, representing an increase of approximately HK$6.3 million or 8.0% as compared with the year ended 31 March 2018.

- Excluding the non-recurring expenses of listing-related expenses and share-based compensation expense, the profit and total comprehensive income for the year ended 31 March 2019 of the Group was approximately HK$1.1 million, representing a decrease of approximately HK$5.2 million or 82.7% as compared with the year ended 31 March 2018.

- The profit and total comprehensive income of the Group was approximately HK$1.1 million for the year ended 31 March 2019, representing a turnaround from the loss and total comprehensive loss of the Group of approximately HK$10.1 million as compared with the year ended 31 March 2018.

- Basic and diluted earnings per share attributable to equity holders of the Company were HK0.07 cents for the year ended 31 March 2019. Basic and diluted loss per share attribute to equity holders of the Company were HK0.80 cents for the year ended 31 March 2018.

- The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2019 (2018: Nil).

ANNUAL RESULTS

The board of directors (the "**Board**") is pleased to announce the audited consolidated results of the Group for the year ended 31 March 2019, together with the audited comparative figures for the year ended 31 March 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Revenue	*4*	**85,408**	79,073
Cost of sales		**(27,497)**	(25,515)
Gross profit		**57,911**	53,558
Other income	*5*	**204**	134
Selling and marketing expenses		**(36,982)**	(34,128)
Administrative expenses		**(18,821)**	(11,597)
Listing-related expenses		**–**	(15,747)
Share-based compensation expense		**–**	(656)
Finance costs	*6*	**(269)**	(316)
Profit/(loss) before income tax	*7*	**2,043**	(8,752)
Income tax expense	*9*	**(951)**	(1,350)
Profit/(loss) and total comprehensive income/(loss) for the year attributable to equity holders of the Company		**1,092**	(10,102)
Earnings/(loss) per share attributable to equity holders of the Company (expressed in HK cents per share)			
— Basic and diluted	*11*	**0.07**	(0.80)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,546**	3,094
Intangible assets		**222**	329
Goodwill	*12*	**23,426**	–
Cash surrender value of life insurance		**1,755**	1,689
Deferred tax assets		**286**	289
		29,235	5,401
Current assets			
Inventories	*13*	**13,763**	11,375
Trade and other receivables	*14*	**35,655**	11,780
Tax recoverable		**255**	–
Pledged bank deposits		**–**	200
Bank balances and cash		**22,795**	35,960
		72,468	59,315
Current liabilities			
Trade and other payables	*15*	**11,846**	8,868
Deferred revenue		**–**	885
Contract liabilities	*16*	**10,592**	–
Income tax liabilities		**258**	304
Interest-bearing borrowings	*17*	**717**	5,009
		23,413	15,066
Net current assets		**49,055**	44,249
Total assets less current liabilities		**78,290**	49,650
Non-current liabilities			
Interest-bearing borrowings	*17*	**896**	335
Contingent consideration payable	*19*	**26,987**	–
		27,883	335
Net assets		**50,407**	49,315
EQUITY			
Share capital	*18*	**15,840**	15,840
Reserves		**34,567**	33,475
Total equity		**50,407**	49,315

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Share capital	Share premium	Capital reserve	Retained profits/ (Accumulated losses)	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 April 2017	–	–	4,818	6,539	11,357
Loss and total comprehensive loss for the year	–	–	–	(10,102)	(10,102)
Transactions with owners					
– Issuance of shares under Share Offer *(Note 18(iii))*	3,960	57,816	–	–	61,776
– Share issuance expenses *(Note 18(iii))*	–	(14,372)	–	–	(14,372)
– Capitalisation issue *(Note 18(ii))*	11,880	(11,880)	–	–	–
– Share-based compensation	–	–	656	–	656
Total transactions with owners	15,840	31,564	656	–	48,060
Balance at 31 March 2018 and 1 April 2018	15,840	31,564	5,474	(3,563)	49,315
Profit and total comprehensive income for the year	–	–	–	1,092	1,092
Balance at 31 March 2019	**15,840**	**31,564**	**5,474**	**(2,471)**	**50,407**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is 28/F., Horizon Plaza, 2 Lee Wing Street, Ap Lei Chau, Hong Kong.

The Group is principally engaged in the sale and distribution of furniture and home accessories, distribution and licencing of intellectual property rights, the provision of styling, consulting and furniture agency services and the operation of a café.

As at 31 March 2019, the Directors consider the immediate and ultimate holding company of the Company to be Tiptop Honour Limited ("**Tiptop**"), a company incorporated in Samoa.

The Company's shares were listed on GEM of the Stock Exchange on 25 January 2018 (the "**Listing**").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the GEM Listing Rules.

The significant accounting policies that have been used in the preparation of these consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated. The adoption of new and amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in Note 2.2.

The consolidated financial statements have been prepared on the historical cost basis, except for cash surrender value of life insurance and contingent consideration payable which are carried at fair value.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands ("**HK$'000**"), except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on the management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 below.

2.2 Changes in accounting policy and disclosures

(a) New and amended HKFRSs that are effective for annual periods beginning on or after 1 April 2018

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 April 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an expected credit loss ("**ECL**") model for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 April 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained profits.

The Group's trade and their receivable, pledged bank deposits and bank balance and cash which are previously classified as loans and receivables under HKAS 39, are now classified at financial assets measured at amortised cost under HKFRS 9.

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

For trade receivables, the Group applies a simplified approach of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

The Group has concluded that the impact of ECL on financial assets is insignificant as at 1 April 2018 and therefore no adjustment was recorded to opening equity.

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "**HKFRS 15**") replace HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and 18.

In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 April 2018.

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

(i) Timing of revenue recognition

Previously, revenue arising from sales of goods or provision of service was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers or when the services have been performed; except for distribution and license fee income which was recognised over the terms of distribution agreement and license period or on an accrual basis in accordance with the terms of agreements.

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

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

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

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

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

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale and distribution of furniture and home accessories, distribution and licencing of intellectual property rights, provision of styling and consulting services and operation of a café.

(ii) Presentation of contract liabilities

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

At the date of initial application of HKFRS 15, advance from customers of HK$6,568,000 previously included in trade and other payables and advance distribution and license fee received and gift vouchers sold but not yet redeemed of HK$885,000 previously included in deferred revenue were reclassified to contract liabilities for HK$7,453,000.

(b) ***Issued but not yet effective HKFRSs***

The following new and amended HKFRSs have been published but are not yet effective for the financial year beginning on 1 April 2018, and have not been adopted early by the Group:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet determined
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaced HKAS 17 and three related Interpretations.

The Group currently classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will measure a lease liability at present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of office, warehouses and shop premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 April 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

As at 31 March 2019, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$13,743,000 for office, warehouses and shop premises, the majority of which is payable between 1 and 5 years after the reporting date.

Upon the initial application of HKFRS 16, the Group plans to measure the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of goodwill impairment

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units ("**CGU**") have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of CGU containing goodwill are disclosed in Note 12.

Valuation of contingent consideration payable

For acquisitions accounted for under HKFRS 3, future anticipated payments to vendors in respect of earnouts are based on the management's best estimates of future obligations, which are dependent on future performance of the interests acquired and assume the operating companies improve profits in line with management's estimates and are included in liabilities greater or less than one year as appropriate. These estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material. Changes to earnouts are recorded in the profit or loss. Details of the contingent consideration are set out in Note 19.

Allowance for inventories

Net realisable value of inventories (Note 13) is the actual or estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market condition. Management reassesses these estimations at the end of each reporting period.

Provision for impairment of trade receivables

Upon the adoption of HKFRS 9, the provisioning policy for trade receivables of the Group is based on the evaluation of the risk of default and the expected loss rate. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, which include the current creditworthiness, the past collection history, the realisation of any repayment pattern promised as well as forward-looking estimates at the end of each reporting period.

Before the adoption of HKFRS 9, the provisioning policy for trade receivables of the Group is based on the evaluation of the collectability of those receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables based on objective evidence, including the current creditworthiness, the past collection history of each customer and settlements subsequent to year end. If the financial conditions of these customers were to deteriorate, additional provision may be required.

Details of trade receivables are set out in Note 14.

4. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue is as follows:

	2019 HK$'000	2018 HK$'000
Types of goods or services		
Sale of furniture and home accessories	**73,296**	73,414
Distribution and license fee income	**3,432**	3,504
Food and beverage income	**2,818**	1,641
Commission income	**2,822**	202
Consulting income	**3,040**	312
	85,408	79,073

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive Directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive Directors are determined following the Group's major product and service lines. For the year ended 31 March 2018, the Group's operating activities are attributable to a single reportable and operating segment of furniture sale and consultancy services, which focus primarily on the sale and distribution of furniture and home accessories in Hong Kong, including the operation of a café inside its retail shop, distribution and licencing of intellectual property rights and the provision of styling and consulting services. Upon the completion of the acquisition of a subsidiary during the year ended 31 March 2019, the furniture agency service segment has been added.

The Group has identified the following reportable segments:

- Furniture sale and consultancy services: the sale and distribution of furniture and home accessories, distribution and licencing of intellectual property rights, the provision of styling and consulting services and the operation of a café.

- Furniture agency service: the provision of furniture agency services

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

	Furniture sale and consultancy services	Furniture agency service	Total
	HK$'000	HK$'000	HK$'000
2019			
Segment revenue from external customers	**82,734**	**2,674**	**85,408**
Reportable segment profit	**5,275**	**1,528**	**6,803**
Reportable segment assets	**27,430**	**46,329**	**73,759**
Reportable segment liabilities	**11,887**	**37,743**	**49,630**
Segment depreciation	**1,785**	**–**	**1,785**
Segment amortisation	**107**	**–**	**107**
Segment finance costs	**32**	**115**	**147**
Additions to property, plant and equipment	**2,242**	**–**	**2,242**
2018			
Segment revenue from external customers	79,073	–	79,073
Reportable segment profit	8,381	–	8,381
Reportable segment assets	22,866	–	22,866
Reportable segment liabilities	9,934	–	9,934
Segment depreciation	1,400	–	1,400
Segment amortisation	100	–	100
Segment finance costs	14	–	14
Additions to property, plant and equipment	1,318	–	1,318
Additions to intangible assets	40	–	40

(a) Segment accounting policies

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that listing-related expenses, share-based compensation expense, certain finance costs, income tax expense and corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Reportable segment assets exclude cash surrender value of life insurance, deferred tax assets, tax recoverable, pledged bank deposits, bank balances and cash and unallocated corporate assets (mainly include certain intangible assets and certain other receivables).

Reportable segment liabilities exclude income tax liabilities, bank borrowings and unallocated corporate liabilities (mainly include certain other payables).

(b) Reconciliation of the reportable segment profit, assets and liabilities

Reportable segment profit, assets and liabilities are reconciled to results and total assets and total liabilities of the Group as follows:

	2019 **HK$'000**	2018 HK$'000
Reportable segment profit	**6,803**	8,381
Unallocated amounts:		
— Listing-related expenses	**–**	(15,747)
— Share-based compensation expense	**–**	(656)
— Finance costs	**(122)**	(302)
— Corporate income and expense	**(4,638)**	(428)
Profit/(Loss) before income tax	**2,043**	(8,752)

	2019 **HK$'000**	2018 HK$'000
Reportable segment assets	**73,759**	22,866
Unallocated assets:		
— Cash surrender value of life insurance	**1,755**	1,689
— Deferred tax assets	**286**	289
— Tax recoverable	**255**	–
— Pledged bank deposits	**–**	200
— Bank balances and cash	**22,795**	35,960
— Unallocated corporate assets	**2,853**	3,712
Total assets	**101,703**	64,716

	2019 **HK$'000**	2018 HK$'000
Reportable segment liabilities	**49,630**	9,934
Unallocated liabilities:		
— Income tax liabilities	**258**	304
— Bank borrowings	**469**	4,922
— Unallocated corporate liabilities	**939**	241
Total liabilities	**51,296**	15,401

(c) Disaggregation of revenue from contracts with customers

	2019 HK$'000
Timing of revenue recognition	
At a point in time	**81,976**
Over time	**3,432**
	85,408

The Group has a large number of customers, no revenue from any individual customer exceeded 10% of the Group's revenue during the year ended 31 March 2019 (2018: Nil).

As of 31 March 2019 and 2018, all of the non-current assets (other than financial instruments and deferred tax assets) of the Group were located in Hong Kong and all revenue of the Group during the years ended 31 March 2019 and 2018 were originated in Hong Kong.

The transaction price allocated to the remaining unsatisfied or partially satisfied performance obligations as at 31 March are as follows:

	2019 HK$'000
Within one year	**3,200**
Over one year	**4,000**
	7,200

As permitted by HKFRS 15, the transaction price allocated to unsatisfied contracts for periods of one year or less is not disclosed.

5. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	**13**	5
Gain on disposal of property, plant and equipment	**40**	–
Sundry income	**151**	129
	204	134

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses on bank borrowings	**122**	302
Finance charges on obligations under finance leases	**32**	14
Fair value changes on contingent consideration payable	**115**	–
	269	316

7. PROFIT/(LOSS) FOR THE YEAR

Profit/(Loss) for the year has been arrived at after charging/(crediting):

	2019 HK$'000	2018 HK$'000
Auditor's remuneration	**600**	410
Cost of inventories recognised as expense	**25,142**	25,515
Depreciation of property, plant and equipment	**1,785**	1,400
Amortisation of intangible assets	**107**	100
Operating lease charges in respect of warehouses, office and shop premises	**12,657**	10,831
Net exchange loss	**116**	242
Fair value gain on cash surrender value of life insurance	**(66)**	(80)

8. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 HK$'000	2018 HK$'000
Salaries, bonus and allowances	**23,229**	19,030
Retirement benefit scheme contributions	**869**	757
Share-based compensation expense	**–**	656
	24,098	20,443

9. INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
Current tax — Hong Kong		
Current year	**950**	1,430
Over provision in respect of prior years	**(30)**	(14)
	920	1,416
Deferred tax		
Origination and reversal of temporary differences	**31**	(66)
Income tax expense	**951**	1,350

The difference between the actual income tax charge in the consolidated statement of profit or loss and comprehensive income and the amounts which would result from applying the enacted tax rate to profit/(loss) before income tax can be reconciled as follows:

	2019 **HK$'000**	2018 HK$'000
Profit/(Loss) before income tax	**2,043**	(8,752)
Tax on loss before income tax, calculated at the statutory rates applicable in the tax jurisdiction concerned	**1,154**	1,246
Tax effect on non-taxable income	**(20)**	(13)
Tax effect on non-deductible expenses	**12**	131
Tax effect of two-tiered tax regime	**(165)**	–
Over provision in respect of prior years	**(30)**	(14)
Income tax expense	**951**	1,350

Notes:

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) British Virgin Islands ("**BVI**") income tax

The Company's direct subsidiary in BVI was incorporated under the BVI Business Companies Act, 2004 and accordingly, is exempted from BVI income tax.

(c) Hong Kong profits tax

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%. The assessable profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%.

For the year ended 31 March 2019, Hong Kong profits tax of Tree Limited, a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime. For the year ended 31 March 2018, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the year.

10. DIVIDENDS

No dividends have been paid or declared by the Company during the years ended 31 March 2019 and 2018.

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the following:

	2019	2018
Profit/(Loss) for the year attributable to equity holders of the Company (HK$'000)	**1,092**	(10,102)
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share (thousands)	**1,584,000**	1,259,605
Basic earnings/(loss) per share (expressed in HK cents per share)	**0.07**	(0.80)

The weighted average number of ordinary shares used to calculate the basic loss per share for the year ended 31 March 2018 includes (i) 100 ordinary shares in issue at the beginning of the year; (ii) 1,187,999,900 new ordinary shares issued under capitalisation issue, (Note 18(ii)) as if all these shares had been in issue throughout the year ended 31 March 2018 and (iii) 71,605,000 shares, representing the weighted average of 396,000,000 new ordinary shares issued under the public offer and placing of shares of the Company (Note 18(iii)).

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share equals the basic earnings/(loss) per share as there were no dilutive potential ordinary shares in existence during the years ended 31 March 2019 and 2018.

12. GOODWILL

The carrying amount of goodwill can be analysed as follows:

	2019 HK$'000	2018 HK$'000
At 1 April	**–**	–
Acquisition of a subsidiary *(Note 19)*	**23,426**	–
At 31 March	**23,426**	–

The carrying amount of goodwill is allocated to the CGU of furniture agency service.

The recoverable amount of the CGU was determined from value in use calculations based on cash flow projections from formally approved financial budgets and forecasts covering a five-year period with 5% average revenue growth rate. The cash flows for the subsequent years are extrapolated from the fifth year cash flow using 3% revenue growth rate, and discounted using a pre-tax discount rate of 20.5%.

13. INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	**12,608**	10,332
Goods in transit	**1,155**	1,043
	13,763	11,375

14. TRADE AND OTHER RECEIVABLES

	Notes	**2019** **HK$'000**	2018 HK$'000
Trade receivables			
From third parties		**24,451**	1,212
From a related company		**232**	24
	(a)	**24,683**	1,236
Other receivables			
Deposits, prepayments and other receivables		**6,375**	6,116
Prepayment to suppliers		**2,197**	828
Prepayment to a related company		**2,400**	3,600
	(b)	**10,972**	10,544
		35,655	11,780

The Directors of the Group considered that the fair value of trade and other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

(a) Trade receivables

Majority of the Group's sales to its customers are in cash, by credit card, or by other forms of electronic payments (such as EPS). There were no credit terms granted to the customers and distributor, but the Group allows credit period of 2 to 7 days to the payment vendors, and up to 120 days to customers of furniture agency service. The Group seeks to maintain strict control over its outstanding trade receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The ageing analysis based on recognition date of the trade receivables is as follows:

	2019 **HK$'000**	2018 HK$'000
Within 30 days	**8,397**	1,226
31–90 days	**6,268**	–
91–180 days	**10,018**	10
	24,683	1,236

(b) Other receivables

As at 31 March 2019 and 2018, none of the amounts included in other receivables were either past due or impaired.

15. TRADE AND OTHER PAYABLES

	Note	2019 HK$'000	2018 HK$'000
Trade payables			
To third parties	*(a)*	**4,238**	195
Other payables			
Accrued charges and other payables		**7,608**	2,242
Deposits receipt in advance	*(b)*	**–**	6,431
		7,608	8,673
		11,846	8,868

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 31 March 2019 and 2018 were considered to be a reasonable approximation of their fair values.

(a) Trade payables

There were no credit periods granted by the suppliers of the Group. The ageing analysis of trade payables based on recognition date is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	**4,215**	194
31–60 days	**18**	1
Over 90 days	**5**	–
	4,238	195

(b) Deposits receipt in advance

As a result of the adoption of HKFRS 15, deposits receipt in advance are included in contract liabilities and disclosed in Note 16. See Note 2.2 for details about changes in accounting policies.

16. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Contract liabilities arising from advance from customers	**10,478**	–
Contract liabilities arising from gift vouchers sold but not yet redeemed	**114**	–
	10,592	–

The Group has initially applied HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 April 2018.

Upon the adoption of HKFRS 15, advances from customers previously included in trade and other payables and advance distribution and license fee received from distributors and gift vouchers sold but not yet redeemed previously included in deferred revenue were reclassified to contract liabilities. Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying products or services are yet to be provided.

As at 1 April 2018, contract liabilities amounted to HK$7,453,000 was fully recognised as revenue during the year ended 31 March 2019.

17. INTEREST-BEARING BORROWINGS

	Notes	2019 HK$'000	2018 HK$'000
Non-current			
Finance lease liabilities	*(a)*	**896**	335
Current			
Current portion of finance lease liabilities	*(a)*	**248**	87
Bank borrowings	*(b)*	**469**	4,922
		717	5,009
		1,613	5,344

(a) Finance lease liabilities

The analysis of the Group's obligations under finance lease is as follows:

	2019 **HK$'000**	2018 HK$'000
Total minimum lease payments:		
— Due within one year	**301**	107
— Due in the second to fifth years	**974**	366
	1,275	473
Future finance charges on finance lease	**(131)**	(51)
Present value of finance lease liabilities	**1,144**	422
Present value of minimum lease payments:		
— Due within one year	**248**	87
— Due in the second to fifth years	**896**	335
	1,144	422
Less: Portion due within one year included under current liabilities	**(248)**	(87)
Portion due after one year included under non-current liabilities	**896**	335

The Group has entered into a finance leases for certain motor vehicles. The lease periods are for 5 years. Under the terms of the leases, the Group has the option to purchase the lease assets at prices that are expected to be sufficiently lower than the fair values of the leased assets at the end of the leases. The leases do not include options to renew or any contingent rental provisions. The finance leases bear interest at fixed rates.

Finance lease liabilities are effectively secured by the underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default by repayment by the Group.

(b) Bank borrowings

	Notes	2019 HK$'000	2018 HK$'000
Bank loans:			
— Secured	*(i)*	**398**	2,739
— Unsecured	*(ii)*	**71**	2,183
		469	4,922

As at 31 March 2019 and 2018, all of the Group's bank borrowings contain a repayable on demand clause and are shown under current liabilities. The carrying amounts of bank borrowings are considered to be a reasonable approximate of their fair values. As at 31 March 2019 and 2018, the Group's bank borrowings, based on the scheduled repayment dates set out in the loan agreements, were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within one year or on demand	**266**	2,775
In the second year	**203**	759
In the third to fifth year	**–**	1,388
	469	4,922

Notes:

(i) As at 31 March 2019, the bank borrowings of HK$398,000 (2018: HK$585,000) are secured, repayable by monthly instalments with terms of 7 years and bears interest at floating rates. The bank borrowings are denominated in the United States Dollars ("**USD**"), with effective interest rate of 4.3% (2018: 3.5%) per annum as at 31 March 2019. As at 31 March 2019 and 2018, the bank borrowings are secured by the Group's life insurance policy covering Ms. Nicole Lucy Haslock ("**Ms. Nicole**"), a Director of the Company, with sum insured of USD1,000,000.

As at 31 March 2018, the bank borrowings of HK$2,154,000 are secured, repayable by monthly instalments with terms of 5 years and bears interest at floating rates. The bank borrowings are denominated in Hong Kong dollars, with effective interest rate of 3.75% per annum as at 31 March 2018. As at 31 March 2018, the bank borrowings are secured by the Group's fixed deposits of HK$200,000. In addition to the above, the bank borrowings were guaranteed by Tong Tang Joseph a director of the Company and the controlling shareholder of Tiptop, up to a limit of HK$2,500,000. Such bank borrowings were fully repaid during the year ended 31 March 2019.

(ii) As at 31 March 2019, the bank borrowings of HK$71,000 (2018: HK$912,000), respectively, are unsecured, repayable by monthly instalments with terms of 5 years and bears interest at floating rates. The bank borrowings are denominated in Hong Kong dollars, with effective interest rate of 4.1% (2018: 4.0%) per annum as at 31 March 2019.

As at 31 March 2018, bank borrowings of HK$1,271,000 are unsecured, repayable by monthly instalments with terms of 2 years and bears interest at floating rates. The bank borrowings are denominated in Hong Kong dollars, with effective interest rate of 3% per annum as at 31 March 2018. As at 31 March 2018, the bank borrowings were guaranteed by the Company up to a limit of HK$6,000,000. Such bank borrowings were fully repaid during the year ended 31 March 2019.

The Group's banking facilities are subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. In addition, the bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements.

18. SHARE CAPITAL

	Notes	**Number of shares**	**Nominal value of shares** HK$'000
Authorised:			
Ordinary shares of HK$0.01 each			
At 1 April 2017		38,000,000	380
Increase in authorised share capital	*(i)*	4,962,000,000	49,620
At 31 March 2018, 1 April 2018 and 31 March 2019		**5,000,000,000**	**50,000**
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At 1 April 2017		100	–
Capitalisation issue	*(ii)*	1,187,999,900	11,880
Issuance of shares under Share Offer	*(iii)*	396,000,000	3,960
At 31 March 2018, 1 April 2018 and 31 March 2019		**1,584,000,000**	**15,840**

Notes:

(i) Pursuant to the written resolution of the shareholders dated 5 January 2018, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each to HK$50,000,000 divided into 5,000,000,000 ordinary shares of HK$0.01 each by the creation of additional 4,962,000,000 ordinary shares, all of which shall rank pari passu in all respects with the existing shares of the Company.

(ii) Pursuant to the written resolution of the shareholders dated 5 January 2018, 1,187,999,900 ordinary shares of HK$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation of the sum of approximately HK$11,880,000 standing to the credit of the share premium account of the Company.

(iii) Upon Listing on 25 January 2018, the Company issued 396,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.156 per share by way of share offer (the "**Share Offer**"). The gross proceeds of approximately HK$61,776,000 of which HK$3,960,000, representing the par value of these ordinary shares, was credited to the share capital of the Company and the remaining proceeds of HK$57,816,000 was credited to the share premium account of the Company.

Incremental costs that are directly attributable to the issue of the new shares amounting to HK$14,372,000 was treated as a deduction against the share premium account arising from the issuance.

19. ACQUISITION OF A SUBSIDIARY

On 14 December 2018, Tree Investment Group Limited ("**Tree Investment**") a subsidiary of the Group, Perfect Bright Management Company Limited, an independent third party, and Mr. Han Yi, an independent third party, entered into a sales and purchase agreement (the "**Sales and Purchase Agreement**"), pursuant to which the Group agreed to acquire the entire share capital of Hong Kong Italiving International Co., Limited ("**Italiving**") (the "**Acquisition**"). The Acquisition was completed on 31 December 2018 (the "**Completion Date**").

The transaction was made to broaden the income base of the Group and facilitate the development of the Group's business.

Pursuant to the terms of the Sales and Purchase Agreement, the total consideration for the Acquisition (the "**Purchase Consideration**") are as follows:

(a) Cash consideration

(i) upon completion, a sum of HK$3,000,000; and

(ii) within three months from the Completion Date, a sum of HK$3,500,000;

(b) Contingent consideration

(i) within one month from the date of the audited account of Italiving for the year ending 31 December 2019, provided that the net profit before income tax of Italiving for the year ending 31 December 2019 is not less than HK$5,200,000, a sum equals two times of the net profit before income tax of Italiving minus HK$6,500,000 paid under (a)(i) and (a)(ii) above;

(ii) within one month from the date of the audited account of Italiving for the year ending 31 December 2020, provided that the net profit before income tax of Italiving for the year ending 31 December 2020 is not less than HK$6,200,000, a sum equals 1.8 times of the net profit before income tax of Italiving; and

(iii) within one month from the date of the audited account of Italiving for the year ending 31 December 2021, provided that the net profit before income tax of Italiving for the year ending 31 December 2021 is not less than HK$9,300,000, a sum equals 1.4 times of the net profit before income tax of Italiving.

Notwithstanding the aforementioned payment schedule, Tree Investment shall not be under any obligation to pay a sum exceeding HK$40,000,000 in aggregate as the Purchase Consideration or when the above obligation has been discharged.

The fair value of the identifiable assets and liabilities of Italiving acquired at the Completion Date is as follows:

	HK$'000
Deferred tax assets	28
Trade and other receivables	22,211
Bank balances and cash	693
Trade and other payables	(8,886)
Contract liabilities	(4,100)
Net identifiable assets acquired	9,946
Goodwill (Note 12)	23,426
	33,372
Purchase Consideration satisfied by	
— Cash	6,500
— Contingent consideration payable, at fair value (Note)	26,872
	33,372

Note:

The Purchase Consideration includes a contingent consideration arrangement. The fair value of the contingent consideration payable of HK$26,872,000 initially recognised on Completion Date represents the present values of the Group's probability-weighted estimates of the cash outflows. It reflects management's estimates of the probabilities that the net profit before income tax of Italiving for the years ending 31 December 2019, 2020 and 2021 will be achieved and the discount rates. As at 31 March 2019, there have been no changes in the estimates of the probable cash outflows but the liability has increased by HK$115,000 due to the unwinding of the discount.

An analysis of the cash flows in respect of the Acquisition is as follows:

	HK$'000
Cash consideration paid	3,000
Less: Bank balances and cash acquired	(693)
Cash outflow in respect of the Acquisition	2,307

As at 31 March 2019, the Purchase Consideration for cash and contingent components of approximately HK$3,500,000 and HK$26,987,000, respectively, remained unpaid, and were included in accrued changes and other payables and non-current portion of contingent consideration payable, respectively.

Goodwill arose in Acquisition as the cost of combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the Acquisition is expected to be deductible for tax purposes.

Acquisition-related costs amounting to HK$281,000 have been excluded from the consideration transferred and have been recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Included in the profit for the year is HK$1,378,000 attributable to the additional business generated by Italiving. Revenue for the year includes HK$2,674,000 in respect of Italiving.

If the Acquisition had occurred on 1 April 2018, the Group's revenue would have been increased by HK$5,338,000 and profit for the year would have been increased by HK$443,000 for the year ended 31 March 2019. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 April 2018, nor is it intended to be a projection of future results.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Headquartered in Hong Kong and operating under the brand name "TREE", we engage in (i) the sale and distribution of furniture and home accessories; (ii) the distribution and licencing of our intellectual property rights; (iii) the operation of TREE café in our flagship store in Ap Lei Chau (the "**Flagship Store**"); (iv) consignment sales of home accessories and furniture agency service; and (v) the provision of styling and consulting services. We offer a variety of (i) furniture including tables, chairs, storage solutions, sofas and beds; and (ii) home accessories including kitchenware, bed and bathroom related products, jars, cushions, mattresses, utensils and baskets. In addition, we acquired, Hong Kong Italiving International Company Limited ("**HK Italiving**") during the year, and it is principally engaged in the provision of furniture agency service.

As at the date of this announcement, we operated three "TREE" retail stores in Hong Kong namely, our Flagship Store, our Sha Tin store, and our Yuen Long store which we opened in May 2018.

During the year ended 31 March 2019, we generated revenue from the (i) sale of furniture and home accessories; (ii) distribution and license fee income; (iii) operation of TREE Café; (iv) consignment sales of home accessories and furniture agency service; and (v) provision of styling, consulting services. The table below sets forth a breakdown of our revenue for the years ended 31 March 2019 and 2018:

	2019	2018
	HK$'000	HK$'000
Sale of furniture and home accessories	**73,296**	73,414
Distribution and license fee income	**3,432**	3,504
Food and beverage income	**2,818**	1,641
Commission income	**2,822**	202
Consulting income	**3,040**	312
	85,408	79,073

For the year ended 31 March 2019 ("**FY2019**"), our revenue amounted to approximately HK$85.4 million, representing an increase of approximately HK$6.3 million or 8.0% from approximately HK$79.1 million for year ended 31 March 2018 ("**FY2018**"). Such increase was mainly attributable to the increase in the sale of food and beverage income, commission income and consulting income.

Sale of furniture and home accessories

TREE primarily sells its products to (i) retail customers who visited our retail stores, being the Direct Sales; and (ii) our distributor in the People's Republic of China (the "**PRC**"), being the Distribution Sales. The following table sets forth a breakdown of our sale of furniture and home accessories by the Direct Sales and Distribution Sales for FY2019 and FY2018, respectively.

	2019		2018	
	Revenue HK$'000	**% of total revenue from sale of furniture and home accessories %**	Revenue HK$'000	% of total revenue from sale of furniture and home accessories %
Direct Sales				
Flagship Store	**52,410**	**71.5**	53,611	73.0
Sai Kung store[1]	**1,117**	**1.5**	2,131	2.9
Yuen Long store[2]	**3,009**	**4.1**	–	–
Sha Tin store	**15,026**	**20.5**	15,836	21.6
Sub-total	**71,562**	**97.6**	71,578	97.5
Distribution Sales	**1,734**	**2.4**	1,836	2.5
Total	**73,296**	**100.0**	73,414	100.0

Notes:

(1) Our Sai Kung store ceased operations in May 2018.

(2) Our Yuen Long store commenced operations in May 2018.

For FY2019, revenue generated from the Direct Sales maintained at approximately HK$71.6 million.

For FY2019, revenue generated from the Distribution Sales amounted to approximately HK$1.7 million, representing a slight decrease of approximately HK$0.1 million or 5.6% from approximately HK$1.8 million for FY2018.

Distribution and license fee income

We entered distribution agreements with our PRC distributor, and we are entitled to receive annual non-refundable fees of HK$2.4 million and HK$0.8 million from our PRC distributor for the distribution of our products in Beijing and Hainan province, the PRC, respectively. Our distribution and license fee income was approximately HK$3.2 million for FY2019 and HK$3.5 million for FY2018, respectively, representing approximately 3.7% and 4.4% of our total revenue for FY2019 and FY2018, respectively.

We entered into licence agreements with American Tree, Ltd. ("**American Tree**"), pursuant to which, we granted an exclusive licence to American Tree to use certain trademarks and intellectual property of our Group in the United States and Canada for a term of three years from the Listing on 25 January 2018, for a license fee based on the revenue of American Tree. We recognised license fee income of approximately HK$0.2 million from American Tree for FY2019 and HK$24,000 in FY2018.

Food and beverage income

Our food and beverage income generated from operating TREE Café in our Flagship Store was approximately HK$2.8 million and HK$1.6 million for FY2019 and FY2018, respectively. The increase was mainly due to a better performance.

Commission income

Our commission income comprised income generated from (i) the furniture agency service by HK Italiving and (ii) the sales of consignment goods. The increase of approximately HK$2.6 million was mainly contributed by HK Italiving since our acquisition.

Consulting income

Our consulting income comprised income generated from providing styling ideas, advising on furniture to be used and conducting site visits and sourcing trips for projects. During FY2019, the Group provided more styling and consulting services in relation to Hong Kong residential show flats as compare to FY2018.

FINANCIAL REVIEW

Revenue

The Group's revenue increased to approximately HK$85.4 million for FY2019 from approximately HK$79.1 million for FY2018, representing a growth of approximately 8.0%. Such increase was mainly due to the increase in food and beverage income, commission income and consulting income, resulting from the better performance of the café together with providing more styling and consulting services in relation to Hong Kong residential show flats for FY2019 as compared with FY2018 and the additional revenue generated from HK Italiving for providing furniture agency service.

Gross profit and gross profit margin

Our overall gross profit increased to approximately HK$57.9 million for FY2019 from approximately HK$53.6 million for FY2018. Our overall gross profit margin maintained at approximately 67.8% for FY2019.

Our gross profit margin for the sale of furniture and home accessories remained stable at approximately 66.5% for FY2019 and approximately 66.3% for FY2018, the slightly increase was mainly attributable to the increase in the average selling price of our furniture sold during FY2019. Our gross profit margin for the Distribution Sales decreased from approximately 57.8% for FY2018 to approximately 50.9% for FY2019, mainly attributable to the decrease in sales.

Our gross profit margin for the sale of food and beverages increased to approximately 64.0% for FY2019 from approximately 53.8% for FY2018.

Selling and marketing expenses

Our selling and marketing expenses comprised of (i) rental payments and related expenses for our shop premises, warehouses and office; (ii) staff costs attributable to the salary of our staff engaged in sales and marketing activities; (iii) marketing expenses; (iv) payment gateway charges attributable to fees for our payment channels such as credit cards or EPS; and (v) electricity and water expenses.

For FY2019, our selling and marketing expenses amounted to approximately HK$37.0 million, representing an increase of approximately HK$2.9 million or approximately 8.4% from approximately HK$34.1 million for FY2018. Such increase was mainly due to (i) the increase in rental expenses and (ii) the increase in staff costs resulting from the general increment of salary and additional headcount of our staff for FY2019.

Administrative expenses

Our administrative expenses comprised (i) staff costs for our administrative staff and Directors' emoluments; (ii) professional fees which included legal fees, consultancy fees and auditor's remuneration; (iii) travel expenses; (iv) office expenses; (v) depreciation of our property, plant and equipment, and amortisation of our intangible assets; (vi) repairs and maintenance for our trucks and retail stores; (vii) insurance expenses which included business insurance, vehicle insurance and medical insurance; (viii) recruitment expenses which included fees to the recruitment agents and advertisements on websites; (ix) bank charges; and (x) others which included motor vehicle expenses, net foreign exchange losses and entertainment expenses.

For FY2019, our administrative expenses amounted to approximately HK$18.8 million, representing an increase of approximately HK$7.2 million or approximately 62.3% as compared to approximately HK$11.6 million for FY2018. Such increase was primarily due to (i) increase in staff costs resulting from the general increment of salary and additional headcount of our staff for FY2019 and (ii) increase in professional fees.

Share-based compensation expense

There were no share-based compensation expense of the Group for FY2019, as compared to approximately HK$0.7 million for FY2018. Share-based compensation expense was incurred due to the incentive shares and the put option granted to Ms. Mary Kathleen Babington, a Director of the Company, in June 2015. The decrease was mainly due to the end of the vesting period on 30 June 2017.

Finance costs

Finance costs mainly comprised interest expenses on interest-bearing borrowings and fair value changes on contingent consideration payable. Finance costs were approximately HK$0.3 million and HK$0.3 million for FY2019 and FY2018, respectively.

Income tax expense

Income tax expense for the Group decreased to approximately HK$1.0 million for FY2019 from approximately HK$1.4 million for FY2018. The decrease was mainly due to the decrease in taxable profits.

Profit/(Loss) for the year

As a result of the foregoing, our profit for the year amounted to approximately HK$1.1 million for FY2019. The turnaround from the loss for the year of the Group of approximately HK$10.1 million for FY2018, which is due to no listing-related expenses and share-based compensation expense recorded in current year as compared to FY2018.

Our adjusted net profit for the year after excluding listing-related expenses and share-based compensation expense amounted to approximately HK$1.1 million and HK$6.3 million for FY2019 and FY2018 respectively.

KEY FINANCIAL POSITION ITEMS

Inventories

Our inventories consisted of finished goods and goods in transit which we purchased from our suppliers. The inventories balance increased to HK$13.8 million as at 31 March 2019 from approximately HK$11.4 million as at 31 March 2018, which was mainly in line with the change in revenue.

Trade and other receivables

Our trade receivables consisted of trade receivables from customers and payment vendors. As at 31 March 2019 and 2018, our trade receivables amounted to approximately HK$24.7 million and HK$1.2 million, respectively. The increase by approximately HK$23.4 million was mainly due to the increase in trade receivables from the acquisition of HK Italiving.

Our other receivables consisted of rental deposits, utilities deposits, trade deposits, prepayments, and prepayment to a related company. As at 31 March 2019 and 2018, our other receivables amounted to approximately HK$11.0 million and HK$10.5 million, respectively.

Pledged bank deposits and cash and cash equivalents

As at 31 March 2019, there is no pledged bank deposits (2018: approximately HK$0.2 million). Pledged bank deposits represents deposits pledged to a bank to secure a bank borrowing. The pledged bank deposit was released during FY2019 upon the repayment of the bank borrowing.

Cash and cash equivalents include cash at bank and in hand. As at 31 March 2019 and 2018, our cash and cash equivalents amounted to approximately HK$22.8 million and HK$36.0 million, respectively.

Trade and other payables

Our trade payables consisted of trade payables to suppliers in relation to the purchase of goods. There were no credit periods granted by our suppliers. As at 31 March 2019 and 2018, our trade payables amounted to approximately HK$4.2 million and HK$0.2 million, respectively.

As at 31 March 2018, our other payables comprised accrued charges, deposits received in advance which represented unrecognised revenue from customers where delivery of products is required and pending, and provision for long service payments. With the adoption of HKFRS 15 in 1 April 2018, the deposits received in advance were reclassified to contract liabilities in FY2019. As at 31 March 2019 and 2018, our other payables amounted to approximately HK$7.6 million and HK$8.7 million, respectively.

Interest-bearing borrowings

As at 31 March 2019 and 2018, our Group recorded interest-bearing borrowings of approximately HK$1.6 million and HK$5.3 million, respectively. The decrease in interest-bearing borrowings was mainly due to the repayment of bank borrowings during FY2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2019, the Group had total assets of approximately HK$101.7 million, which is financed by total liabilities and shareholders' equity of approximately HK$51.3 million and HK$50.4 million, respectively. The Group's current ratio at 31 March 2019 was approximately 3.1 compared to approximately 3.9 at 31 March 2018.

Gearing ratio

The gearing ratio of the Group as at 31 March 2019 was approximately 3.2% while as at 31 March 2018 was approximately 10.8%. The gearing ratio decreased significantly as the Group repaid the bank borrowings during FY2019.

The gearing ratio is calculated based on the total interest-bearing borrowings divided by total equity at each reporting date.

Capital expenditure

Total capital expenditure for FY2019 was approximately HK$2.2 million, which was mainly used for the purchase of motor vehicles and leasehold improvements.

Contingent liabilities

As at 31 March 2019, there were no significant contingent liabilities for the Group.

Commitments

As at 31 March 2019, the Group's operating lease commitments was approximately HK$13.7 million (2018: HK$22.2 million).

As at 31 March 2019, there were no capital commitments of the Group related to purchase of property, plant and equipment (2018: Nil).

Charges on Group assets

As at 31 March 2019, there was no pledged bank deposits (2018: approximately HK$0.2 million), and motor vehicle with net book value of approximately HK$1.1 million (2018: approximately HK$0.4 million) were held under finance leases.

Segment information

Segment information is presented for the Group as disclosed on Note 4 to the consolidated financial statements.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 25 January 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2019, the Company's issued share capital was HK$15,840,000 and the number of its issued ordinary shares was 1,584,000,000 of HK$0.01 each.

DIVIDENDS

The Board does not recommend the payment of a final dividend for FY2019 (FY2018: Nil).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 31 December 2018, the Company completed the acquisition of HK Italiving, a company incorporated in Hong Kong, and it is principally engaged in the provision of furniture agency service. The management of the Company believed that the acquisition will help strengthen and expand the Company's business by increasing the revenue of the Company after acquisition, broadening the diversity of furniture products of the Company and expanding furniture sales through cross selling between the Company's and the HK Italiving's customers.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed herein, the Group did not have any concrete plan for material investments or capital assets for the coming year.

PRINCIPAL RISKS AND UNCERTAINTIES

In the course of conducting business, our Group is exposed to various types of risks, including operational risks, credit risks, liquidity risk and interest rate risks. Our Group has established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations.

The followings set out some of the primary operational risks our Group faces that may materially and adversely affect our Group's business, financial condition and results of operation and our risk management measures:

1. Risk of remaining competitive in a highly fragmented and competitive market

The lifestyle furniture and home furnishing market is highly fragmented and competitive with low barriers to entry, and there are no specific market leaders. Our competitors may have greater financial, marketing, personnel and other relevant resources compared to us. In particular, the pricing strategies implemented by our competitors may affect the pricing of our products. If our competitors significantly reduce their product prices, we may have to reduce our selling prices or engage in further marketing to remain competitive. This would likely reduce our revenue and profitability.

2. Risk of dependent on the shift in customer's tastes and preferences

Due to the nature of the furniture retail industry, the customers generally purchase our products on an infrequent basis. Apart from the PRC distributor, there is no purchase commitments from our customers and there is no obligation for them to purchase any products from us in the future. There is a risk that we may not be able to attract new customers or existing customers to purchase our products if we fail to successfully track changing customers tastes and preferences and market trends.

3. Risk of failure in expanding sales network to new locations in Hong Kong or through online platform

It may take longer than expected for the new stores to reach breakeven or achieve investment payback, if at all. There is no guarantee that we will execute our expansion plans according to business strategies in the prospectus successfully, or that we will be able to attract more customers from our expansion. If we fail to execute our expansion plans, our operations and results of operations will be materially and adversely affected.

4. Risk of not entering into any long-term contracts with our major suppliers

We rely on our major suppliers to supply products to us and we do not have any long-term contracts with these suppliers. As such, we are exposed to the risks such as unexpected price fluctuation, shortage of supply of products, failure to meet our agreed delivery time and refusal to supply products. In such case, we would have to look for alternative suppliers and we may not be able to do so in a timely manner and/or at a similar price with comparable quality. Further, if we fail to replace our major suppliers when our business relationship is disrupted or terminated, we may face a shortage in supply of certain products and our business and results of operations may be adversely affected as a result.

The Group is also exposed to a variety of financial risks which comprise credit risk, liquidity risk and interest rate risk.

FOREIGN CURRENCY RISK

As our Group's revenue and expenses are mainly denominated in HK$ and most of our Group's assets and liabilities are denominated in HK$, which is our functional currency, except for certain overseas purchases, bank balances, bank borrowings which are denominated in Euro or USD. During FY2019, the Group has exchange loss of approximately HK$0.1 million (FY2018: approximately HK$0.2 million).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2019, the Group had a total of 78 employees. Total staff costs, (including Directors' emoluments and share-based compensation expense) of approximately HK$24.1 million for FY2019 (FY2018: approximately HK$20.4 million).

The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. We have also adopted the share option scheme which is designed to provide incentives and rewards to our employees.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries, the Group did not hold any significant investments during FY2019.

FUTURE PROSPECTS

This forthcoming financial year will continue to be challenging as retail market conditions remain competitive and weak consumer confidence and spending in Hong Kong prevails. In addition to running our three TREE retail stores in Hong Kong, the management recognises the need to expand our revenue streams. The Group has already seen growth in additional opportunities in styling and consulting services and will continue to focus on the development of this area of the business. The Group has invested in, and now launched, our e-commerce store, enabling the opportunity to auto-generate sales 24/7, in addition to establishing a new furniture rental business, with the view to becoming a key player in this sector. Both of these ventures are important developments, and investments, by which the business can enjoy sustainable growth.

The Group has also strengthened its income base and expended the products offered within its portfolio by providing furniture agency services for furniture imported from Italy, primarily to customers in the PRC. The Group continues to look for ways to provide comprehensive services to customers in Hong Kong and the PRC.

USE OF PROCEEDS

The net proceeds from the Listing in January 2018, after deducting the underwriting fees, the Stock Exchange trading fee and the Securities and Futures Commission of Hong Kong transaction levy and other listing-related expenses in connection with the Share Offer, were approximately HK$20.3 million.

The actual net proceeds from the issue of new shares of the Company under the Share Offer was different from the estimated net proceeds of approximately HK$22.7 million as set out in the prospectus. The Group adjusted the use of proceeds in the same manner and in the same proportion as shown in the prospectus, which is (i) approximately 71.5% of the total actual net proceeds, or approximately HK$14.5 million will be used to expand our sales network, (ii) approximately 10.1% of the total actual net proceeds, or approximately HK$2.1 million, will be used to promote and strengthen brand image and recognition, (iii) approximately 9.1% of the total actual net proceeds, or approximately HK$1.8 million, will be used to enhance our styling and consulting services and distribution sales, and (iv) approximately 9.3% of the total actual net proceeds, or approximately HK$1.9 million, will be used to enhance operational efficiencies.

During the period from the Listing on 25 January 2018 to 31 March 2019, the Group has utilised $7.4 million, or 32.6% of the actual net proceeds from the Listing for the staff costs of trainer, interior designer and project manager; the establishment of an e-commerce platform; the enhancement of the POS system; and for the leasehold improvement, marketing, deposit and rental of the Yuen Long store opened in May 2018.

OTHER INFORMATION

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

During FY2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to fulfilling its responsibilities to the shareholders and protecting and enhancing shareholders' value through good corporate governance. Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability.

The Company has applied the principles and code provisions in the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with the CG Code during FY2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of the code of conduct for dealings in securities of the Company by the Directors as set out in Rules 5.46 to 5.68 of the GEM Listing Rules.

Having made specific enquiries to all Directors, all Directors confirmed that they have fully complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company, and there was no event of non-compliance during FY2019 up to the date of this announcement.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group mainly carries out its businesses in Hong Kong. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied with all relevant laws and regulations in Hong Kong during FY2019.

ENVIRONMENTAL POLICY

The Group aims to protect the environment by minimising environmental adverse impacts in daily operations, such as energy saving and recycling of office resources. The Group will continue to seek better environmental practices and promote the right environmental attitudes within the organisation. The Group has complied with all relevant laws and regulations in Hong Kong in respect of environmental protection, health and safety, workplace conditions and employment.

RELATIONSHIPS WITH STAKEHOLDERS

The Group recognises employees as its valuable assets and it strictly complies with the labour laws and regulations in Hong Kong and reviews regularly the existing staff benefits for improvement. Apart from the reasonable remuneration packages, the Group also offers other employee benefits, such as the medical reimbursement and organising annual dinner, sports activities, etc. The Group provides good quality services to the customers and maintains a good relationship with them. The Group keeps a database for direct communications with recurring customers for developing long-term business relationships. The Group maintains effective communications and develops long-term trust relationships with the suppliers. During FY2019, there was no material dispute or arguments between the Group and the suppliers.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as above and except for (i) the investor and public relationship service fee of approximately HK$1.2 million to AE Majoris Business Development Company Limited, which is controlled by Mr. Tsui Wing Tak, a Director of the Company and (ii) the license fee income of approximately HK$0.2 million from American Tree, which is controlled by Ms. Haslock, a Director of the Company, there were no transactions, arrangements or contracts of significance to which any of the Company, or any of its holding companies or fellow subsidiaries or subsidiaries was a party and in which a Director of the Company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of FY2019 or at any time during FY2019.

COMPETING BUSINESS AND CONFLICT OF INTEREST

As confirmed by the Directors, controlling shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of the Group, which competes or is likely to compete, directly or indirectly, with the business of the Group FY2019.

AUDIT COMMITTEE

We established our Audit Committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C3.2 and C3.3 of the Corporate Governance Code Practices pursuant to a resolution of our Directors passed on 5 January 2018. The terms of reference were amended and restated on 4 January 2019, with respect to the update of the GEM Listing Rules. The primary duties of our Audit Committee are, among other things, to make recommendations to our Board on the appointment, reappointment and removal of external auditor, review the financial statements and provide advice in respect of financial reporting, oversee our financial reporting process, internal control, risk management systems and audit process, and perform other duties and responsibilities assigned by our Board.

As at the date of this announcement, the Audit Committee consists of three members, namely Mr. YEUNG Man Chung Charles, Mr. TSANG Wai Yin and Mr. SIT Hoi Wah Kenneth, all being Independent Non-Executive Directors of the Company. Mr. YEUNG Man Chung Charles currently serves as the Chairman of the Audit Committee.

The Audit Committee has reviewed the annual results of the Group for FY2019.

SCOPE OF WORK OF GRANT THORNTON HONG KONG LIMITED

The figures in respect of the preliminary announcement of the Group's results for the FY2019 have been agreed by the Company's auditors, Grant Thornton Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Grant Thornton Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Grant Thornton Hong Kong Limited on the preliminary announcement.

By order of the Board
Tree Holdings Limited
TONG Tang Joseph
Chairman

Hong Kong, 19 June 2019

As at the date of this announcement, the Board comprises Ms. Mary Kathleen BABINGTON, and Mr. TSUI Wing Tak as executive Directors, Mr. TONG Tang Joseph, and Ms. Nicole Lucy HASLOCK as non-executive Directors; and Mr. YEUNG Man Chung Charles, Mr. TSANG Wai Yin, and Mr. SIT Hoi Wah Kenneth as the independent non-executive Directors.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company's website at https://treeholdings.com.