ROYALE FURNITURE HOLDINGS LIMITED
皇朝傢俬控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1198)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULTS

The Board of directors (the "Board") of Royale Furniture Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 (the "Period") together with the comparative figures for the corresponding period in 2017. The interim results for the Period had been reviewed by the audit committee of the Company and approved by the Board.

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	4	**422,086**	384,567
Cost of sales		**(283,887)**	(254,671)
Gross profit		**138,199**	129,896
Other income and gains	4	**13,251**	12,746
Selling and distribution expenses		**(80,378)**	(69,334)
Administrative expenses		**(47,578)**	(47,491)
Finance costs	6	**(10,415)**	(11,970)
PROFIT BEFORE TAX	5	**13,079**	13,847
Income tax expenses	7	**–**	–
PROFIT FOR THE PERIOD		**13,079**	13,847
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		**13,924**	13,103
NON-CONTROLLING INTERESTS		**(845)**	744
		13,079	13,847
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		(Restated)
Basic		**HK0.703 cents**	HK0.742 cents
			(Restated)
Diluted		**HK0.689 cents**	HK0.732 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

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

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

NOTES TO FINANCIAL STATEMENTS

At 30 June 2018

1. BASIS OF PREPARATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

3. OPERATING SEGMENT INFORMATION

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

Information about a major customer

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

5. PROFIT BEFORE TAX

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

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

6. FINANCE COSTS

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

7. INCOME TAX

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

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

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

8. DIVIDENDS

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

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

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

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

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

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parents, used in the basic and diluted earnings per share calculations	**13,924**	13,103

	Number of shares Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**1,980,506,680**	1,764,085,160
Effect of dilution-weighted average number of ordinary shares:		
Share options	**40,729,011**	26,647,699

10. TRADE RECEIVABLES

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

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

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

11. TRADE PAYABLES

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

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

12. SHARE OPTION SCHEME

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

13. COMMITMENTS

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

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

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

14. EVENT AFTER REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

Sales and Network Management

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

Brand Management

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

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

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

FINANCIAL REVIEW

Inventory and Prepayments, Deposits and Other Receivables

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

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

Other comprehensive (loss)/income

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

Working Capital Challenge

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

PROSPECTS

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

EMPLOYMENT AND REMUNERATION POLICY

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE REVIEW

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted for compliance by the directors the code of conduct for dealings in securities of the Company as set out in Appendix 10 of the Listing Rules: Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Having made specific enquiry to all the directors of the Company, the directors confirmed that they had complied with the Model Code for the period ended 30 June 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PUBLICATION OF INTERIM REPORT

The 2018 interim report for the Period of the Company, which contains condensed consolidated financial statements for the six months ended 30 June 2018, and all other information required under Appendix 16 of the Listing Rule will be despatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://royale.todayir.com) in due course.

By order of the Board
Royale Furniture Holdings Limited
Tse Kam Pang
Chairman and Chief Executive Officer

Hong Kong, 20 August 2018

As at the date of this announcement, the Board comprises three Executive Directors, namely, Mr. Tse Kam Pang, Mr. Tse Hok Kan and Mr. Chan Wing Kit; three Independent Non-Executive Directors, namely, Dr. Donald H. Straszheim, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew.