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 2020

RESULTS

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

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2020

	Notes	Six months ended 30 June **2020** *HK$'000* (Unaudited)	2019 *HK$'000* (Unaudited)
REVENUE	4	**220,639**	384,948
Cost of sales		**(231,781)**	(258,335)
Gross (loss)/profit		**(11,142)**	126,613
Other income and gains	4	**9,602**	13,387
Selling and distribution expenses		**(57,322)**	(65,043)
Administrative expenses		**(63,888)**	(52,473)
Finance costs	6	**(7,102)**	(9,390)
Share of profits and losses of:			
Associates		**(2,086)**	–
(LOSS)/PROFIT BEFORE TAX	5	**(131,938)**	13,094
Income tax expenses	7	**–**	–
(LOSS)/PROFIT FOR THE PERIOD		**(131,938)**	13,094
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		**(131,291)**	12,657
NON-CONTROLLING INTERESTS		**(647)**	437
		(131,938)	13,094
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**HK(5.052) cents**	HK0.609 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	**(131,938)**	13,094
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange difference arising from translation of foreign operations	**(27,184)**	121
Total comprehensive (loss)/income for the period	**(159,122)**	13,215
Attributable to:		
Owners of the parent	**(155,514)**	12,767
Non-controlling interests	**(3,608)**	448
	(159,122)	13,215

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

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

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

NOTES TO FINANCIAL STATEMENTS

At 30 June 2020

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements for the Period do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

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

Information about a major customer

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the Period (six months ended 30 June 2019: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**220,639**	384,948
Other income and gains		
Bank interest income	**1,039**	8
Rental income	**6,813**	9,680
Sales of scraps	**1,110**	143
Fair value gains on investment properties	**–**	3,360
Others	**640**	196
	9,602	13,387
	230,241	398,335

5. (LOSS)/PROFIT BEFORE TAX

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

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

6. FINANCE COSTS

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

7. INCOME TAX

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

	Six months ended 30 June	
	2020	2019
	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 have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

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

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

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2020.

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

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

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

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non interest bearing.

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

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

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

11. TRADE PAYABLES

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

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

12. SHARE OPTION SCHEME

According to the scheme limit of the 2012 Scheme as refreshed on the annual general meeting of the Company held on 1 June 2020, the Company may further grant 259,856,132 (31 December 2019: 216,546,777) share options, representing approximately 10% (31 December 2019: 10%) of the issued share capital of the Company as at 30 June 2020.

13. COMMITMENTS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

Management System Reform

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

Brand Management

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

FINANCIAL REVIEW

Inventory and Prepayments, Deposits and Other Receivables

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

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

Working Capital Challenge

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

PROSPECTS

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

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

* *For identification purpose only*

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2020 was approximately 1,385 (2019: 1,702). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE REVIEW

The accounting information given in this interim results for the Period has not been audited but the audit committee of the Company has reviewed the financial results of the Group for the period ended 30 June 2020 and discussed with internal audit executives matters on internal control and financial reports of the Group. The audit committee of the Company has not undertaken external independent audit checks regarding the interim results for the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

Having made specific enquiry to all the directors of the Company, the directors confirmed that they had complied with the Model Code for the period ended 30 June 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities for the period ended 30 June 2020.

PUBLIC FLOAT

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

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

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

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

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

PUBLICATION OF INTERIM REPORT

The 2020 interim report for the Period of the Company, which contains condensed consolidated financial statements for the six months ended 30 June 2020, 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 Executive Director

Hong Kong, 24 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Tse Kam Pang (Chairman) and Mr. Yang Jun; four non-executive Directors, namely, Mr. Wu Zhongming, Mr. Wu Dingliang, Ms. Qin You and Mr. Liu Zhijun; and three independent non-executive Directors, namely, Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin.