



INTERIM REPORT 2022

ROYALE HOME HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1198

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Wu Zhongming
Mr. Wu Dingliang
Ms. Qin You
Mr. Chen Yisheng

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chui See Lai

AUDITOR

Ernst & Young

SOLICITORS

Jeffrey Mak Law Firm

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 607, 6/F
Tsim Sha Tsui Centre, West Wing
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

1198

INVESTOR RELATIONS

Tel: (852) 2636-6648
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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2022, under the leadership of the Central Government, the People's Republic of China ("PRC" or "China") achieved significant success in combatting the Coronavirus disease ("COVID-19") pandemic and maintained a steady economy. For the six months ended 30 June 2022 ("Period"), Royale Home Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded strong growth in revenue, increased by 60.7% to approximately HK\$711 million. The revenue growth was partly due to the increase in overall revenue driven by the further expansion of the distributor network in Mainland China. This led to the increase in sales of the Group's products, especially 皇朝定制+ and 皇朝沙發, which were well received by the market. Another attributing factor is the realization of the "home furnishing" business concept through the continuous enrichment of the product lines and the expansion of projects from pure furniture to interior decoration materials. In addition, the Group's overall gross profit margin increased from 15.2% to 17.2%. The gross profit margin of the furniture business also further increased from 28.6% to 30.1% due to higher sales volumes. This was attributable to the Group's continuous innovation and development of new and high-quality products while reducing costs through economies of scale.

During the Period under review, the Group continued to pursue in-depth cooperation with its controlling shareholder, Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司) ("Science City Group"), and various elite enterprises in the industry, to explore and identify investment and cooperation opportunities, and continue to explore new revenue sources. The Group has intensified its efforts in expanding and optimizing its distributor network, and made great progress in the deployment of its offline stores. Being firmly optimistic about the PRC market of furniture and household products, the management of the Group will further boost its market share while maintaining a sound financial position to provide the Group with continuous growth momentum.

In early 2022, in active response to the PRC Central Government's appeal, the Group swiftly donated 24,000 high-quality mattresses within two weeks to help the Hong Kong Government build a mobile cabin hospital. In the future, the Group will continue to be attentive to the needs of the community, do its best to give back to the community, and practice its motto of "Taken from the community, Given back to the community".

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

During the six months ended 30 June 2022, the Group recorded loss for the period attributable to the owners of the parent company of HK\$73.8 million, as compared to loss for the period attributable to the owners of the parent company of HK\$83.3 million for the same period of last year.

FINANCIAL REVIEW

Inventory and Prepayments, Deposits and Other Receivables

During the Period, the Group's inventory increased by 4.2% to HK\$264.7 million (31 December 2021: HK\$254.1 million).

Prepayments, deposits and other receivables increased by 6.1% to HK\$501.2 million (31 December 2021: HK\$472.5 million).

Working Capital

The Group had net current assets of HK\$426.5 million as at 30 June 2022 (31 December 2021: net current assets of HK\$714.8 million). The Group will continue to take initiatives to manage its cash flow and capital commitments.

PROSPECTS

Looking forward to the second half of 2022, there are still uncertainties in China's mainland macro economy and domestic consumer market, and pandemic prevention and control measures continue to be strictly implemented across the country for the purpose of "dynamic-zero". The Group will continue to deepen its presence in the furniture and home furnishing markets to seize the development opportunities in the industry. With regards to the offline distributor network, after the significant expansion in the first half of the year, the Group will focus on providing support to its distributors in various areas across the country in the second half of the year to optimize and improve their operational efficiency, in order to further enhance the Group's brand influence and market share. Since last year, the Group has arranged for distributors to open their stores in several large home furnishing malls with cooperation agreements in order to provide distributors with a more favorable environment to promote the brands and products.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (Continued)

Apart from continuing to update its current range of complete furnishing solution, sofas and custom-made furniture, the Group continues to expand its product lines to building materials and home furnishings, and develop new business lines such as wooden doors, floor tiles, Internet of Things, smart home, etc., to establish a one-stop supply platform with branded home furnishing business through the construction of a full product supply chain.

Additional to the existing projects from commercial customers, the Group has entered into strategic collaborations with a large-scale renovation and interior design company to tap into the huge residential property buyer market of “turnkey” with one-stop diversified home furnishing designs tailored to suit their own needs. In the future, the Group will continue to strengthen its internet marketing and continue to attract more younger user groups and penetrate different market segments through online promotion.

In addition, the commercial and residential projects developed by a joint venture of the Group with Ganglong China Property Group Limited (a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), stock code: 6968) in Zengcheng District, Guangzhou, are operating in an orderly manner and are in the process of pre-sales with the opening of its sales center. The Group will also adjust the pace of development of its joint venture due to the downturn and increased uncertainty of the real estate market in the PRC. Besides, the Group will also provide interior design and whole-house furniture supporting services to property buyers, to seize the rapid development opportunities in Zengcheng District for the Group.

In light of increasingly deepened collaboration with the controlling shareholder, Science City Group, the Group expects to be presented more opportunities to explore and expand into other areas in the future, which will help the Group diversify its industry risks and strengthen its business scale and revenue channels.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, the interests and short positions of the directors of the Company (the "Directors") and chief executive of the Company in the shares of the Company ("Share(s)") and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in shares and underlying shares of the Company:

Name of Directors	Note	Number of Shares and underlying Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note c)
		Directly beneficially owned	Through controlled corporation/ family interests	Through jointly held by other persons (Note a)		
Mr. Tse Kam Pang ("Mr. Tse")	(b)	282,948,047	427,580,269	1,234,862,964	1,945,391,280	74.86
Mr. Yue Man Yiu Matthew		3,000,000	-	-	3,000,000	0.12

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

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

Notes:

- (a) On 24 May 2019, Science City (Hong Kong) Investment Co. Limited ("SCHK"), Mr. Tse, Crisana International Inc. ("Crisana"), Charming Future Holdings Limited ("Charming Future") and Leading Star Global Limited ("Leading Star") entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 74.86% of the issued share capital of the Company.
- (b) 282,948,047 Shares (representing 10.89% of the issued share capital of the Company), were directly beneficially owned by Mr. Tse, 51,971,227 Shares were held by Leading Star, 165,840,120 Shares were held by Crisana and 209,768,922 Shares were held by Charming Future. Leading Star, Crisana and Charming Future are all companies wholly and beneficially owned by Mr. Tse. Mr. Tse was deemed to be interested in 1,234,862,964 Shares by virtue of being a party acting-in-concert with SCHK. As such, Mr. Tse was deemed to be interested in the 1,945,391,280 Shares.
- (c) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 30 June 2022.

Save as disclosed above, as at 30 June 2022, none of the Directors and the chief executive of the Company had any interest and short position in the Shares, debentures or underlying Shares of the Company and its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2022, the following shareholders of the Company (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions:

Name	Notes	Number of Shares and underlying Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note f)
		Directly beneficially owned	Interest held through controlled corporation	Interest held jointly with other persons (Note e)		
Science City Group	(a)	–	1,945,391,280	–	1,945,391,280	74.86
SCHK	(a)	1,234,862,964	–	710,528,316	1,945,391,280	74.86
Crisana	(b)	165,840,120	–	1,779,551,160	1,945,391,280	74.86
Charming Future	(c)	209,768,922	–	1,735,622,358	1,945,391,280	74.86
Leading Star	(d)	51,971,227	–	1,893,420,053	1,945,391,280	74.86

Notes:

- SCHK is wholly owned by Science City Group, a company established in the PRC with limited liability on 21 August 1984. As such, Science City Group was deemed to be interested in 1,945,391,280 shares of the Company in which SCHK is interested under Part XV of the SFO. The ultimate beneficial owner of Science City Group is the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).
- Crisana is wholly-owned by Mr. Tse Kam Pang, a Director of the Company.
- Charming Future is wholly-owned by Mr. Tse Kam Pang, a Director of the Company.
- Leading Star is wholly-owned by Mr. Tse Kam Pang, a Director of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Long positions: *(Continued)*

Notes: *(Continued)*

- (e) On 24 May 2019, SCHK, Mr. Tse, Leading Star, Crisana and Charming Future entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 74.86% of the issued share capital of the Company.
- (f) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 30 June 2022.

Save as disclosed above, as at 30 June 2022, no other persons or corporations (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 18 May 2012 (the "Share Option Scheme"). The 10% general limit on the grant of options under the Share Option Scheme was refreshed on 1 June 2020. Please refer to the circular and the announcements of the Company dated 20 April 2012 and 28 April 2020 respectively for details.

As at 1 January 2022, the Company did not have share options outstanding under the Share Option Scheme. No options were granted under the Share Option Scheme during the Period. The Share Option Scheme expired on 17 May 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE SHARE AWARD PLAN

The Company has adopted a performance share award plan (the "Performance Share Award Plan") on 14 May 2021.

Details of the Performance Share Award Plan were set out in the announcement of the Company dated 14 May 2021 and the 2021 Annual Report.

During the Period, 1,774,000 Shares (31 December 2021: 108,966,000 Shares) were purchased, no Shares (31 December 2021: nil) were granted and no Shares (31 December 2021: nil) were vested under the Performance Share Award Plan. The number of Shares available for grant of share awards as at 30 June 2022 were 110,740,000 (31 December 2021: 108,966,000), representing approximately 4.26% of the Shares in issue.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and cash equivalents amounted to HK\$127.1 million as at 30 June 2022 (31 December 2021: HK\$146.5 million).

As at 30 June 2022, the interest-bearing bank and other borrowings amounted to HK\$2,585.9 million (31 December 2021: HK\$2,341.1 million), the Group had loan from non-controlling interests and medium term bonds in the total amount of HK\$83.3 million (31 December 2021: loan from the immediate holding company, loan from non-controlling interests, loans from a director and medium term bonds were in the total amount of HK\$268.7 million).

As at 30 June 2022, the current ratio (current assets/current liabilities) was 1.21 times (31 December 2021: 1.37 times) and the net current assets amounted to HK\$426.5 million (31 December 2021: HK\$714.8 million).

CAPITAL STRUCTURE

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

GEARING RATIO

The gearing ratio is defined as net debt divided by capital plus net debt was 56% as at 30 June 2022 (31 December 2021: 51%).

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 18 March 2022, Royal Finance Lease Limited (皇朝融資租賃有限公司), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with China Finance Leasing Limited ("China Finance Lease"), pursuant to which Royal Finance Lease Limited conditionally agreed to acquire, and China Finance Lease conditionally agreed to sell, 1.5% of the equity interest in Science City (Guangzhou) Financial Leasing Co., Ltd.* (科學城(廣州)融資租賃有限公司) ("SC Financial Leasing") (in relation to which the corresponding registered capital of SC Financial Leasing is RMB15.0 million), at the cash consideration of RMB19.5 million (the "Acquisition").

Following completion of the Acquisition, Royal Finance Lease Limited owns 25% of the equity interest in SC Financial Leasing.

Particulars of material investments in associates held by the Group as at 30 June 2022 are set out as follows:

Name	Principal activity	Percentage of equity interest held	Carrying amount	
			As at 30 June 2022	As at 31 December 2021
			HK\$'000	HK\$'000
Gangzhou Fu Yue Design Company Limited ("Fuyue Design")	Design services	50%	86,621	92,095
Sky Walker Limited ("Sky Walker")	Investment	42.42%	136,754	144,470
Guangzhou Gangke Real Estate Co., Ltd ("Gangke")	Real Estate	40%	886,773	936,018
SC Financial Leasing	Financial Leasing	25% (2021: 23.5%)	332,782	311,541

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS *(Continued)*

Save for the aforementioned, the Group did not make any material acquisition or disposal of subsidiaries, associated companies and joint ventures as well as any significant investments. Apart from those disclosed in this interim report, there was no plan authorised by the board of directors of the Company (the “Board”) for other material investments or additions of capital assets at the date of this interim report.

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

On 24 May 2019, the Company and SCHK entered into a Subscription Agreement (“Subscription”) pursuant to which the Company has conditionally agreed to issue, and SCHK has conditionally agreed to subscribe for, in cash, 433,093,554 new shares of the Company (“Share(s)”) at a price of HK\$1.02 per Share under specific mandate. On 2 August 2019, the Company completed the allotment and issuance of 433,093,554 new ordinary Shares. The net proceeds from the share subscription received by the Company were approximately HK\$440.2 million, equivalent to a net subscription price of approximately HK\$1.02 per Share.

References are made to the (i) the circular of the Company dated 8 July 2019; (ii) the 2019 annual report of the Company published on 28 April 2020; (iii) the 2020 interim report of the Company published on 9 September 2020; (iv) the 2020 annual report of the Company published on 28 April 2021; (v) the 2021 interim report of the Company published on 29 September 2021; and (vi) the 2021 annual report of the Company published on 28 April 2022.

MANAGEMENT DISCUSSION AND ANALYSIS**USE OF NET PROCEEDS FROM THE SHARE SUBSCRIPTION AND CHANGE IN USE OF PROCEEDS**
(Continued)

The details of the proposed use of net proceeds, change in use of proceeds and the actual use of proceeds during the Period are as follows:

Proposed use of proceeds	Original allocation of the net proceeds (HK\$ million)	Revised use of proceeds (HK\$ million)	Unutilised net proceeds as at 1 January 2022 (HK\$ million)	Net proceeds utilised during the six months ended 30 June 2022 (HK\$ million)	Amount utilised up to 30 June 2022 (HK\$ million)	Unutilised proceeds as at 30 June 2022 (HK\$ million)	Expected timeline
Repaying certain loans of the Company	100.0	100.0	-	-	100.0	-	-
Acquisition of land	30.0	30.0	-	-	30.0	-	-
Construction of new production facilities	130.0	130.0	47.0	8.4	91.4	38.6	By 31 December 2022 (Note)
Imported machinery for new production facilities	80.0	80.0	43.5	-	36.5	43.5	By 31 December 2022 (Note)
Expenditure for establishing warehouses/new distribution spot on the Group's land in northern China	60.0	-	-	-	-	-	-
General working capital	40.2	100.2	-	-	100.2	-	-
Total	440.2	440.2	90.5	8.4	358.1	82.1	

Note:

As disclosed in the 2021 Interim Report and the 2021 Annual Report, due to the outbreak of COVID-19, the Group's plan in relation to the construction of new production facilities and imported machinery for new production facilities had been delayed. The part of the actual net proceeds which were expected to be utilised by 1 August 2021 was not fully utilized in view of the delayed progress. The Board considers that it is appropriate to extend the expected timeline for the application of such unutilised proceeds to 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURES

Our Group has foreign currency exposures. Such exposures mainly arise from the balance of assets and liabilities and transactions in currencies other than the respective functional currencies of our Company and its subsidiaries. Currently, the Group does not maintain any hedging policy with respect to these foreign currency exposures.

CONTINGENT LIABILITIES

Certain subsidiaries of the Group are currently defendants in a lawsuit brought by an independent third-party lessee alleging that a warehouse built on the leased land by the lessee was torn down by the subsidiaries without consent of termination of the lease contract by the lessee. The total compensation claimed amounted to RMB135,612,000. Bank deposit of RMB67,806,000 (equivalent to HK\$79,420,000) (31 December 2021: RMB67,806,000 (equivalent to HK\$83,113,000)) has been frozen following a court order.

As at the date of this report, the arbitration has yet to be resolved. Considering the warehouse is an unauthorised construction, the directors, based on the advice from the Group's legal counsel, believe that the subsidiaries have a valid defence against the allegation and, accordingly, the Group has not provided for any claims arising from the litigation, other than the related legal and other costs.

EVENTS AFTER REPORTING PERIOD

No significant events affecting the Group had occurred after the reporting Period and up to the date of this report.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2022 was approximately 1,748 (31 December 2021: 1,328). 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 awards may be granted to eligible employees and persons of the Group.

The Group adopted the Performance Share Award Plan on 14 May 2021. The purpose of the Performance Share Award Plan is to recognise and reward the contribution of certain eligible persons (i.e. any full-time employee of the Group, including directors, executive, officers or senior management of the Group (but excluded directors or the chief executive officer of the Company)) towards the growth and development of the Group through an award of shares. Details of the Performance Share Award Plan has been disclosed in the announcement dated 14 May 2021. As at 30 June 2022, no Shares have been awarded to any eligible persons pursuant to the Performance Share Award Plan.

CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE REVIEW

The accounting information in the interim results for the Period has not been audited by the auditors of the Company but the audit committee of the Company has reviewed the financial results of the Group for the six months ended 30 June 2022 and discussed with internal audit executives in relation to 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 Model Code as set out in Appendix 10 of the Listing Rules.

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 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2022.

PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the directors of the Company, it is confirmed that there is sufficient public float of more than 25 per cent of the Company's issued shares during the Period and as at the date of this Interim Report.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULES 13.20 AND 13.22 OF CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements of Rules 13.20 and 13.22 of Chapter 13 of the Listing Rules, the following were the details of advances to an entity and/or financial assistances to affiliated company of the Group and exceed 8% of the Group's total assets as at 30 June 2022 recorded in the unaudited financial statements of the Group for the period ended 30 June 2022 pursuant to Rules 13.13 and 13.16 thereof.

Pursuant to a letter of confirmation dated 5 January 2022 entered into between Guangzhou Wanlibao Investment Co., Ltd.* (廣州萬利寶投資有限公司) ("Wanlibao"), a wholly-owned subsidiary of the Company and Gangke, a joint venture the equity interest in which is held as to 40% and 60% by Wanlibao and Jiangsu Ganglong Huayang Real Estate Co., Ltd.* (江蘇港龍華揚置業有限公司), respectively. The parties have agreed and confirmed the provision of a shareholder's loan (the "Shareholder's Loan") in the principal amount of up to RMB732 million and that certain previous contributions made shall be deemed to be and construed as advances provided by Wanlibao to the Gangke under the Shareholder's Loan (and the date of such advances shall be deemed to be and construed as the date of drawdown under the Shareholder's Agreement). The Shareholder's Loan is repayable on demand and is not secured by any collateral, with an interest rate of 8% per annum. The Shareholders' Loan is a revolving loan under which more than one drawdown may be made.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULES 13.20 AND 13.22 OF CHAPTER 13 OF THE LISTING RULES *(Continued)*

A pledge over 40% of the equity interest in Gangke held by Wanlibao (the "Pledge") was provided by Wanlibao in favour of Industrial and Commercial Bank of China Limited, Xintang, Guangzhou Branch (中國工商銀行股份有限公司廣州新塘支行) (the "Lender") pursuant to the terms of pledge agreement dated 29 September 2021 entered into between Wanlibao as pledgor and the Lender as pledgee to secure the repayment of a maximum loan amount of RMB320 million. For further details please refer to the announcement of the Company dated 29 September 2021.

As at 30 June 2022, the outstanding principal amount under the Shareholders' Loan amounted to HK\$781.1 million (i.e. approximately RMB666.9 million). The Pledge given in respect of the bank loan granted to Gangke amounted to HK\$374.8 million (i.e. approximately RMB320.0 million). The aggregate amount of the Shareholders' Loan provided to and the Pledge provided in favour of Gangke by Wanlibao amounted to HK\$1,155.9 million (i.e. approximately RMB986.9 million), representing 18.9% of the consolidated total assets of the Group of HK\$6,113.2 million as at 30 June 2022.

A statement of financial position of the affiliated company as at 30 June 2022 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	Statement of financial position HK\$'000	Group's attributable interest HK\$'000
Current assets	5,398,844	2,159,538
Non-current assets	32,354	12,942
Current liabilities	(2,508,801)	(1,003,521)
Non-current liabilities	(705,464)	(282,186)
Net assets	2,216,933	886,773

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
REVENUE	4	710,995	442,479
Cost of sales		(588,837)	(375,392)
Gross profit		122,158	67,087
Other income and gains	4	41,770	21,484
Selling and distribution expenses		(86,775)	(59,493)
Administrative expenses		(87,355)	(70,324)
Finance costs	6	(72,584)	(45,520)
Share of profits and losses of: Associates		3,697	(526)
LOSS BEFORE TAX	5	(79,089)	(87,292)
Income tax expense	7	(178)	–
LOSS FOR THE PERIOD		(79,267)	(87,292)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		Six months ended 30 June	
	Note	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
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Attributable to:			
Owners of the parent		(73,781)	(83,279)
Non-controlling interests		(5,486)	(4,013)
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		(79,267)	(87,292)
<hr/>			
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic		HK(2.966) cents	HK(3.205) cents
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Diluted		N/A	N/A
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Details of the dividends payable and proposed for the Period are disclosed in note 8 to the interim condensed consolidated financial statements of the Period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	(79,267)	(87,292)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange difference on translation of foreign operations	(126,793)	25,359
Total comprehensive loss for the period	(206,060)	(61,933)
Attributable to:		
Owners of the parent	(194,079)	(59,502)
Non-controlling interests	(11,981)	(2,431)
	(206,060)	(61,933)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		981,098	950,864
Investment properties		589,704	589,704
Right-of-use assets		278,630	311,700
Goodwill		34,482	34,482
Intangible assets		1,753	3,445
Investments in associates		1,543,194	1,583,465
Deferred tax assets		23,839	24,947
Prepayments		20,822	21,790
Contract assets		1,603	1,677
Restricted cash		174,522	122,574
Total non-current assets		3,649,647	3,644,648
CURRENT ASSETS			
Inventories		264,679	254,126
Trade receivables	10	231,654	187,062
Prepayments, deposits and other receivables		480,357	450,705
Contract assets		109	114
Financial assets at fair value through profit or loss		–	10,481
Amounts due from associates		999,086	909,162
Restricted cash		360,530	696,100
Cash and cash equivalents		127,147	146,453
Total current assets		2,463,562	2,654,203
CURRENT LIABILITIES			
Trade payables	11	163,311	106,199
Other payables and accruals		130,154	153,908
Interest-bearing bank and other borrowings		1,466,688	1,406,875
Loan from non-controlling interests		3,245	3,396
Loans from a director		–	89,272
Dividend payables		129,928	–
Tax payable		143,716	179,733
Total current liabilities		2,037,042	1,939,383
NET CURRENT ASSETS		426,520	714,820
TOTAL ASSETS LESS CURRENT LIABILITIES		4,076,167	4,359,468

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,076,167	4,359,468
NON-CURRENT LIABILITIES		
Medium term bonds	37,277	36,338
Interest-bearing bank and other borrowings	1,119,232	934,223
Loan from non-controlling interests	42,732	44,718
Loan from the immediate holding company	–	95,000
Lease liabilities	15,738	24,790
Deferred tax liabilities	429,259	449,214
Deferred government grant	43,353	45,368
Total non-current liabilities	1,687,591	1,629,651
Net assets	2,388,576	2,729,817
EQUITY		
Equity attributable to owners of the parent		
Share capital	259,856	259,856
Reserves	1,994,503	2,323,763
Non-controlling interests	2,254,359	2,583,619
	134,217	146,198
Total equity	2,388,576	2,729,817

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company										
	Issued share capital	Shares held under Share Award Scheme	Share premium account	Capital reserve	Asset revaluation reserve	Statutory reserve	Exchange fluctuation reserve	Retained profit	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	259,856	-	1,482,883	(9,444)	131,714	115,286	164,151	726,545	2,870,991	132,203	3,003,194
Loss for the period	-	-	-	-	-	-	-	(83,279)	(83,279)	(4,013)	(87,292)
Dividends approved in respect of the previous years (Note 8)	-	-	(259,856)	-	-	-	-	-	(259,856)	-	(259,856)
Shares purchase under the Performance Share Award Scheme	-	(78,813)	-	-	-	-	-	-	(78,813)	-	(78,813)
Other comprehensive income for the period: Exchange differences related to foreign operations	-	-	-	-	-	-	23,777	-	23,777	1,582	25,359
At 30 June 2021 (unaudited)	259,856	(78,813)	1,223,027	(9,444)	131,714	115,286	187,928	643,266	2,472,820	129,772	2,602,592
At 1 January 2022	259,856	(222,907)	1,223,027	(9,444)	164,852	120,571	243,982	803,682	2,583,619	146,198	2,729,817
Loss for the period	-	-	-	-	-	-	-	(73,781)	(73,781)	(5,486)	(79,267)
Dividends approved in respect of the previous years (Note 8)	-	-	(129,928)	-	-	-	-	-	(129,928)	-	(129,928)
Shares purchase under the Performance Share Award Scheme	-	(5,253)	-	-	-	-	-	-	(5,253)	-	(5,253)
Other comprehensive income for the period: Exchange differences related to foreign operations	-	-	-	-	-	-	(120,298)	-	(120,298)	(6,496)	(126,793)
At 30 June 2022 (unaudited)	259,856	(228,160)*	1,093,099*	(9,444)*	164,852*	120,571*	123,684*	729,901*	2,254,359	134,217	2,388,576

* These reserve accounts comprise the consolidated reserves of HK\$1,994,503,000 (31 December 2021: HK\$2,323,763,000) in the interim condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash flow (used in)/from operating activities	(86,628)	555,013
Net cash flow from/(used in) investing activities	18,780	(721,773)
Net cash flow from financing activities	55,048	813,547
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(12,800)	646,787
Cash and cash equivalents at beginning of period	146,453	236,930
Effect of foreign exchange rate changes, net	(6,506)	2,835
CASH AND CASH EQUIVALENTS AT END OF PERIOD	127,147	886,552
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	127,147	886,552

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2022 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 2021.

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 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41

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

- (a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

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

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2022. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2022, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

3. OPERATING SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

The Group has four reportable segments as follows:

- (a) The furniture products segment, engaging in the manufacture and sale of home furniture.
- (b) The development properties for sales and property investments segment, engaging in the property investment and development.
- (c) The hotel operations segment, engaging in the hotel operation.
- (d) The trading segment, engaging in the trading of aluminum ingots and bars.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

3. OPERATING SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended 30 June 2022 (Unaudited)	Manufacture and sale of furniture HK\$'000	Development properties for sales and property investments HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Total HK\$'000
Segment revenue					
Sale to external customers	408,166	-	16,389	286,440	710,995
Reconciliation:					
Revenue from continuing operations					<u>710,995</u>
Segment results	9,613	(63,665)	(7,160)	1,759	(59,453)
Reconciliation:					
Reportable segment profit/(loss) before taxation	9,613	(63,665)	(7,160)	1,759	(59,453)
Unallocated expenses					(35,580)
Share of profit of associate					<u>15,944</u>
Loss before tax from continuing operations					(79,089)

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2021 (Unaudited)	Manufacture and sale of furniture HK\$'000	Development properties for sales and property investments HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Total HK\$'000
Segment revenue					
Sale to external customers	269,978	-	12,688	159,813	442,479
Reconciliation:					
Revenue from continuing operations					442,479
Segment results	(10,888)	(54,101)	(9,308)	(47)	(74,344)
Reconciliation:					
Reportable segment loss before taxation	(10,888)	(54,101)	(9,308)	(47)	(74,344)
Unallocated expenses					(21,543)
Share of profit of associate					8,595
Loss before tax from continuing operations					(87,292)

No analysis of the Group's assets and liabilities is disclosed as such information is not regularly provided to the chief operating decision-makers for review.

Information about a major customer

Revenue from continuing operations of approximately HK\$154,313,000 (2021: HK\$101,725,000) was derived from trading segment to a single customer, which amounted to 10% or more of the Group's revenue during the period.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue		
Sales of goods	694,606	429,791
Hotel operation income	16,389	12,688
	710,995	442,479
Other income and gains		
Bank and other interest income	32,882	11,055
Sales of scraps	183	149
Rental income	2,500	2,618
Government subsidy	5,593	6,697
Others	612	965
	41,770	21,484
	752,765	463,963

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Cost of inventories sold	588,837	375,392
Depreciation of property, plant and equipment	33,326	29,522
Amortisation of intangible assets	1,539	2,135

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

6. FINANCE COSTS

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Interest on bank and other borrowings (including medium term bonds), loans from related parties and lease liabilities	72,584	45,520

7. INCOME TAX EXPENSE

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	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current – PRC corporate income tax	178	–
Total tax charge for the period	178	–

8. DIVIDENDS

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Final dividend in respect of the previous financial year of HK1 cent per ordinary share and a special dividend of HK4 cents per ordinary share (2021: Final dividend in respect of the previous financial year of HK4 cents per ordinary share and a special dividend of HK6 cents per ordinary share)	129,928	259,856

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

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

The calculation of basic loss per share amounts is based on the loss for the Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under share award scheme during the Period of 2,487,885,834 (six months ended 30 June 2021: 2,598,561,326).

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2022 and 2021.

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Loss		
Loss attributable to ordinary equity holders of the parents, used in the basic and diluted loss per share calculations	(73,781)	(83,279)
	Number of shares Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the period used in the basic and diluted loss per share calculation	2,487,885,834	2,598,561,326
Effect of dilution – weighted average number of ordinary shares	N/A	N/A

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

10. TRADE RECEIVABLES

Trade receivables are mainly from hotel operations and sales of goods including furniture and trading. For sales of furniture, the Group's trading terms with its customers are mainly on credit, except for some new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. For hotel operations and trading, payment is generally received in advance. 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. The Group does not hold any collateral or other credit enhancements over its trade receivables balance. Trade receivables are non-interest-bearing.

Trade receivables of HK\$3,014,000 (2021: HK\$54,794,000) which are due from related parties, 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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 1 month	177,642	128,708
1 to 3 months	11,351	8,227
3 to 6 months	9,498	7,530
Over 6 months	33,163	42,597
	231,654	187,062

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 1 month	111,101	73,340
1 to 3 months	41,318	27,755
3 to 6 months	4,015	1,312
6 to 12 months	4,178	1,211
More than 1 year	2,699	2,581
	163,311	106,199

12. MEDIUM TERM BONDS

On 5 February 2016, the Company established a medium term bonds programme with a nominal value of HK\$10,000,000 each. The Bonds are non-callable until 5 February 2025 and non-puttable until 5 February 2020. Interest on the outstanding bonds will be payable annually in arrears at the interest rate of 0.1% per annum first payable on 5 February 2018 and last payable on 5 February 2063 and will mature on 5 February 2064. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 8.01% to 8.86% per annum.

The fair value of the medium term bonds was estimated at the issuance date by discounting the expected future cash flows using an equivalent market interest rate for a similar bond taking into consideration the Group's own credit and liquidity risk.

The medium term bonds recognised in the statement of financial position were calculated as follows:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Carrying amount at 1 January	36,338	34,050
Accrued Interest expenses	1,459	2,778
Paid	(520)	(490)
Carrying amount	37,277	36,338

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

13. SHARE OPTION SCHEME

The Share Option Scheme was expired on 17 May 2022. No options were granted during the Period and there were no outstanding options as at 30 June 2022 (31 December 2021: Nil).

14. RELATED PARTY TRANSACTIONS**(a) Transactions with related parties**

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

		Six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
Notes		(Unaudited)	(Unaudited)
	Science City Group and the then affiliates:		
	Sales of products (i), (ii)	2,989	26,129
	Purchases of construction services (ii)	1,835	18,717
	Purchases of management services (ii)	150	350
	Guarantee fees (ii)	4,638	–
	Loan from an associate (ii)	–	24,026
	Repayment of loans from the immediate holding company (ii)	115,000	–
	Interest expenses to ultimate holding company (ii)	–	1,636
	Interest expenses to a fellow subsidiary (ii)	–	2,678
	Interest expenses to an associate (ii)	–	3,700
	Interest expenses to the immediate holding company (ii)	2,682	–

Notes:

- (i) The sales to the fellow subsidiaries were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The related party transactions are also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

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

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade receivables due from related parties:			
The ultimate holding company	(i)	1,000	8,884
Fellow subsidiaries	(i)	2,014	24,433
Associates	(i)	–	21,477
Other receivables due from related parties:			
The ultimate holding company	(i)	150	154
Associates		–	338

Note:

- (i) This balance is unsecured, interest-free and has no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June 2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Short term employee benefits	6,120	6,417
Pension scheme contributions	170	37
Total compensation paid to key management personnel	6,290	6,454

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

15. COMMITMENTS

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

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Contracted, but not provided for:		
Construction in progress	11,713	9,833
	11,713	9,833

16. CONTINGENT LIABILITIES

At the end of the reporting Period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Guarantees given to banks in connection with facilities granted to an associate	374,813	392,237

During the Period, the Group has pledged 40% (31 December 2021: 40%) equity interest in an associate, Gangke, to secure general banking facilities granted to Gangke. In the opinion of the directors, the fair value of the guarantees and the ECL allowance are not significant as at 30 June 2022 and 31 December 2021.

NOTES TO FINANCIAL STATEMENTS

At 30 June 2022

16. CONTINGENT LIABILITIES *(Continued)*

Certain subsidiaries of the Group are currently defendants in a lawsuit brought by an independent third-party lessee alleging that a warehouse built on the leased land by the lessee was torn down by the subsidiaries without consent of termination of the lease contract by the lessee. The total compensation claimed amounted to RMB135,612,000. Bank deposit of RMB67,806,000 (equivalent to HK\$79,420,000) (31 December 2021: RMB67,806,000 (equivalent to HK\$83,113,000)) has been frozen following a court order.

As at the report date, the arbitration has yet to be resolved. Considering the warehouse is an unauthorised construction, the directors, based on the advice from the Group's legal counsel, believe that the subsidiaries have a valid defence against the allegation and, accordingly, the Group has not provided for any claims arising from the litigation, other than the related legal and other costs.

By Order of the Board

Tse Kam Pang

Chairman and Executive Director

Hong Kong, 31 August 2022