



TREE HOLDINGS LIMITED

齊家控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

stock code 8395



2018/19 interim report  
中期業績報告

## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

## FINANCIAL HIGHLIGHT

- The Group's revenue amounted to approximately HK\$42.7 million for the six months ended 30 September 2018, representing an increase of approximately HK\$2.2 million or 5.3% as compared with the six months ended 30 September 2017.
- Excluding the non-recurring expenses of listing-related expenses, and share-based compensation expense, the profit and total comprehensive income for the six months ended 30 September 2018 of the Group is approximately HK\$1.5 million, representing a decrease of approximately HK\$2.4 million or 62.3% as compared with the six months ended 30 September 2017.
- The profit and total comprehensive income of the Group is approximately HK\$1.5 million for the six months ended 30 September 2018, representing a turnaround from a loss and total comprehensive loss of the Group of approximately HK\$1.4 million for the six months ended 30 September 2017.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2018.

## INTERIM RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries for the six months ended 30 September 2018 (the “**Relevant Period**”), which has been reviewed by the audit committee of the Company, together with the audited comparative figures for the corresponding period in 2017, as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 September 2018

		<b>Six months ended 30 September</b>	
	<i>Notes</i>	<b>2018 HK\$'000 (Unaudited)</b>	2017 HK\$'000 (Audited)
<b>Revenue</b>	3	<b>42,727</b>	40,560
Cost of sales		<b>(14,211)</b>	(13,058)
<b>Gross Profit</b>		<b>28,516</b>	27,502
Other income		<b>121</b>	82
Selling and marketing expenses		<b>(19,162)</b>	(17,291)
Administrative expenses		<b>(7,649)</b>	(5,486)
Listing-related expenses		–	(4,658)
Share-based compensation expense	6	–	(656)
Finance costs		<b>(89)</b>	(158)
<b>Profit/(loss) before income tax</b>		<b>1,737</b>	(665)
Income tax expense	4	<b>(274)</b>	(763)
<b>Profit/(loss) and total comprehensive income/(loss) for the period attributable to equity holders of the Company</b>		<b>1,463</b>	(1,428)
<b>Earnings/(loss) per share attributable to equity holders of the Company (expressed in HK cents per share)</b>			
— Basic and diluted	5	<b>0.09</b>	(0.12)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2018

	Notes	<b>30 September 2018 HK\$'000 (Unaudited)</b>	31 March 2018 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		3,590	3,094
Intangible assets		330	329
Cash surrender value of life insurance		1,719	1,689
Deferred tax assets		289	289
		<b>5,928</b>	5,401
<b>Current assets</b>			
Inventories		10,392	11,375
Trade and other receivables	8	13,777	11,780
Pledged bank deposits	9	200	200
Bank balances and cash	9	33,728	35,960
		<b>58,097</b>	59,315
<b>Current liabilities</b>			
Trade and other payables	10	9,451	8,868
Deferred revenue		–	885
Income tax liabilities		–	304
Interest-bearing borrowings	11	3,482	5,009
		<b>12,933</b>	15,066
<b>Net current assets</b>			
		<b>45,164</b>	44,249
<b>Total assets less current liabilities</b>			
		<b>51,092</b>	49,650
<b>Non-current liabilities</b>			
Interest-bearing borrowings	11	314	335
<b>Net assets</b>			
		<b>50,778</b>	49,315
<b>EQUITY</b>			
Share capital		15,840	15,840
Reserves		34,938	33,475
<b>Total equity</b>			
		<b>50,778</b>	49,315

The above unaudited consolidated statement of financial position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2018

				Accumulated	
	Share capital	Share premium	Capital reserve	profits/(losses)	Total equity
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 April 2018 (audited)</b>	<b>15,840</b>	<b>31,564</b>	<b>5,474</b>	<b>(3,563)</b>	<b>49,315</b>
Profit and total comprehensive income of the period	-	-	-	1,463	1,463
<b>Balance as at 30 September 2018 (unaudited)</b>	<b>15,840</b>	<b>31,564</b>	<b>5,474</b>	<b>(2,100)</b>	<b>50,778</b>
<b>At 1 April 2017 (audited)</b>	-	-	4,818	6,539	11,357
Loss and total comprehensive loss of the period	-	-	-	(1,428)	(1,428)
<b>Transactions with owners</b>					
– Share-based compensation	6	-	656	-	656
<b>Total transactions with owners</b>		-	656	-	656
<b>Balance as at 30 September 2017 (audited)</b>		-	5,474	5,111	10,585

The above unaudited consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 September 2018

	<b>Six months ended 30 September</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Net cash used in operating activities	<b>845</b>	(458)
Net cash used in investing activities	<b>(1,440)</b>	(137)
Net cash (used in)/from financing activities	<b>(1,637)</b>	464
Net decrease in cash and cash equivalents	<b>(2,232)</b>	(131)
Cash and cash equivalents at 1 April	<b>35,960</b>	179
Cash and cash equivalents at 30 September	<b>33,728</b>	48
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	<b>33,728</b>	2,718
Bank overdraft	-	(2,670)
	<b>33,728</b>	48

The above unaudited consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Tree Holdings Limited was incorporated in the Cayman Islands on 9 March 2016 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is 28/F., Horizon Plaza, 2 Lee Wing Street, Ap Lei Chau, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in the sale and distribution of furniture and home accessories, distribution and licencing of intellectual property rights, the provision of styling and consulting services and the operation of a café.

As at 30 September 2018, the directors consider the immediate and ultimate holding company of the Company to be Tiptop Honour Limited ("Tiptop"), a company incorporated in Samoa.

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

## 2. REORGANISATION AND BASIS OF PREPARATION

Pursuant to a group reorganisation (the "Reorganisation") of the Company in connection with the listing of its shares on GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 29 July 2016. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "History, Development and Reorganisation" in the Company's prospectus dated 12 January 2018.

Prior to the Reorganisation, TREE Limited, the Group's sole operating subsidiary, was wholly owned and controlled by Tiptop. The Group is under the common control of the Tiptop prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The unaudited consolidated financial statements have been prepared as if the Company had always been the holding company of the Group. The unaudited consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 September 2018 include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the periods, or since their respective dates of incorporation when there is a shorter period.

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

The unaudited consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these unaudited consolidated financial statements have been consistently applied to all the periods presented, unless otherwise stated.

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

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

HKICPA has issued a number of new and amended HKFRSs and interpretations that are first effective or available for early adoption for the Relevant Period. There have been no significant changes to the accounting policies applied in these financial statements for the Relevant Period presented as a result of these developments.

The preparation of the unaudited consolidated financial statements of the Group for the Relevant Period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group's accounting policies.

The unaudited consolidated financial statements for the Relevant Period have not been audited by the Company's independent auditor but have been reviewed by the Company's audit committee.

### 3. REVENUE

Revenue represents the fair value of the consideration received or receivable for the sale of goods and services provided in the normal course of business, net of discounts. Information reported to the Company's executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(i)	Sale of furniture and home accessories	Direct sales from the retail stores, and sales to the PRC distributor
(ii)	Distribution and license fee income	Non-refundable fee received from the PRC distributor for the distribution of the Group's products in Beijing and Hainan province, the PRC
(iii)	Food and beverage income	Food and beverage income generated from operation of TREE Café in the Group's flagship store in Ap Lei Chau
(iv)	Commission income	Commission from sales of products consigned from independent third parties for sale in the Group's retail stores
(v)	Consulting income	Income from provision of styling and consulting services

	<b>Six months ended 30 September</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Sales of furniture and home accessories	<b>39,184</b>	37,580
Distribution and license fee income	<b>1,600</b>	1,880
Food and beverage income	<b>1,431</b>	750
Commission income	<b>74</b>	105
Consulting income	<b>438</b>	245
Total	<b>42,727</b>	40,560

### 4. INCOME TAX EXPENSE

	<b>Six months ended 30 September</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Hong Kong	<b>274</b>	763

Hong Kong profits tax has been provided at the rate of 16.5% (2017:16.5%) on the estimated assessable profits of the Group for the periods.

## 5. BASIC EARNINGS/(LOSS) PER SHARE

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

	<b>Six months ended 30 September</b>	
	<b>2018 (Unaudited)</b>	2017 (Audited)
Profit/(loss) for the period attributable to equity holders of the Company (HK\$'000)	<b>1,463</b>	(1,428)
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share (thousands)	<b>1,584,000</b>	1,188,000
Basic earnings/(loss) per share (expressed in HK cents per share)	<b>0.09</b>	(0.12)

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six-month periods ended 30 September 2018 includes (i) 100 ordinary shares in issue at the beginning of the period; (ii) 1,187,999,900 new ordinary shares issued under capitalisation issue, on the assumption that these shares had been in issue throughout the six-month periods ended 30 September 2018 and (iii) 396,000,000 new ordinary shares issued under the public offer and placing of shares of the Company.

The weighted average number of ordinary shares used to calculate the basic loss per share for the period ended 30 September 2017 has been adjusted retrospectively for the effects of the Reorganisation and capitalisation issue as if the Reorganisation and the capitalisation issue had been completed on 1 April 2016.

Diluted earnings/(loss) per share for the Relevant Period equals the basic earnings/(loss) per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 September 2017, and the Relevant Period.

## 6. SHARE-BASED COMPENSATION TRANSACTIONS

### **Incentive Shares awarded to a key management personnel by Tiptop Honour Limited (“Tiptop”)**

On 1 June 2015, pursuant to an Incentive Shares Deed entered among Tiptop, TREE Limited and Ms. Mary Kathleen BABINGTON (“Ms. Babington”), a director and a key management personnel of the Group, (collectively, the “Parties”), Tiptop has agreed to award and transfer 5% of its equity interest in TREE Limited or its holding company or its successor entity pursuant to any pre-IPO restructuring (the “Incentive Shares”) to Ms. Babington within thirty business days after 1 June 2015 at a consideration of HK\$1. The Incentive Shares were granted to recognize Ms. Babington’s prior contribution and to give incentive to retain her for the continual growth and expansion of the Listing Business (as defined in the prospectus of the Company dated 12 January 2018).

Pursuant to the Incentive Shares Deed, Ms. Babington must return the Incentive Shares to Tiptop at a cost of HK\$1 if she terminates or gives notice to terminate her employment with TREE Limited prior to the Agreed Date (being the earlier of: (i) the date of any IPO; (ii) the date of any change of control as defined in the employment contract; or (iii) 30 June 2017). As at 31 March 2017, the estimated date of an IPO is in 2017. The Incentive Shares Deed also includes a put option (the “Put Option”) and tag along rights with Tiptop, pursuant to which, on the condition that (i) the profit of TREE Limited for each of the years ending 31 March 2016 and 2017 are not less than HK\$10,000,000 and HK\$10,000,000, respectively; and (ii) an IPO does not take place within twenty-four months from 1 June 2015, Ms. Babington is entitled to exercise the Put Option to sell back the Incentive Shares to Tiptop at a total consideration of HK\$5,000,000 on or after the date of sign off of the audited financial statements of TREE Limited for the year ending 31 March 2017 by the auditors. In addition, in the event of an IPO, Ms. Babington may continue to exercise the Put Option at any time within three months following the IPO if the market price of the Incentive Shares falls below the option price of HK\$5,000,000 (the “Special Right to the Put Option”) immediately prior to the date of any put notice. The Group has no legal or constructive obligation to repurchase or settle the Incentive Shares or the Put Option in cash. The Incentive Shares and the Put Option were treated as linked and accounted for as a share-based compensation transaction by way of capital contribution from the shareholder and were fully vested on 30 June 2017.

The fair value of the Incentive Shares and the Put Option at the date of grant i.e. 1 June 2015, was approximately HK\$5,474,000. The fair value is estimated by reference to the difference between the consideration and the fair value of the underlying 5% equity interest in TREE Limited, the Listing Business, and the Put Option at the date of grant. The Company have used the discounted cash flow method in determining the fair value of the underlying 5% equity interest in TREE Limited and the option pricing model in determining the fair value of the Put Option. The key assumptions used in the discounted cash flow method at the grant date includes the discount rate of 12.33% and projections of future performance. The valuation of the Put Option was determined using the Black-Scholes option pricing model and the following principal assumptions were used in the valuation:

Fair value of shares at grant date	HK\$3,017,500
Exercise price at date of grant	HK\$5,000,000
Expected volatility	57.44%
Expected option life	2.08 years
Dividend yield	0%
Risk-free interest rate	0.42%

The underlying expected volatility was determined by reference to historical data, calculated based on expected life of the Put Option. Expectations of early exercise were incorporated into the Black-Scholes option pricing model. No special features pertinent to the options granted were incorporated into measurement of fair value.

On 31 May 2016, pursuant to a Supplemental Deed entered among the Parties, it was further agreed that the Incentive Shares will be transferred to Ms. Babington on or before 31 October 2016. In addition, on 15 November 2016, pursuant to the Second Supplemental Incentive Shares Deed entered among the Parties, it was further agreed that the Special Right to the Put Option be removed and Ms. Babington shall not be entitled to exercise the Put Option for a period of six months commencing on the filing of any listing application by TREE Limited or its direct or indirect parent company for an IPO, and the Put Option and tag along rights will lapse upon the Listing. As all the above modifications were not beneficial to Ms. Babington, as such, the Group has continued to account for the original grant as if the modifications had not occurred.

Pursuant to the Incentive Shares Deed, the Supplemental Deed and as part of the Reorganisation, on 10 August 2016, Ms. Babington through her wholly owned subsidiary, Rothley Investment Limited, acquired 5% equity interest of the Company from Tiptop at a consideration of HK\$1.

The Group recognised a total expense of HK\$656,000 and nil respectively, for each of the six months ended 30 September 2017 and the Relevant Period in relation to the above share award granted by the shareholder of the Company.

## 7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the Relevant Period (2017: nil).

## 8. TRADE AND OTHER RECEIVABLES

	<b>As at 30 September 2018 HK\$'000</b>	As at 31 March 2018 HK\$'000
<b>Trade receivables</b>		
From third parties	<b>3,309</b>	1,212
From a related company	<b>98</b>	24
	<b>(a) 3,407</b>	1,236
<b>Other receivables</b>		
Deposits, prepayments and other receivables	<b>5,969</b>	6,116
Prepayment to suppliers	<b>1,401</b>	828
Prepayment to a related company	<b>3,000</b>	3,600
	<b>(b) 10,370</b>	10,544
	<b>13,777</b>	11,780

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

### (a) Trade receivables

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

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

	<b>As at 30 September 2018 HK\$'000</b>	As at 31 March 2018 HK\$'000
1–30 days	<b>2,885</b>	1,226
31–90 days	<b>522</b>	–
91–180 days	<b>–</b>	10
	<b>3,407</b>	1,236

As the end of the reporting period, the Group reviews receivables for evidence of impairment on an individual basis. As at 30 September 2018, none of the trade receivables was determined as individually impaired and written off as bad debts (31 March 2018: nil).

**(b) Other receivables**

As at 30 September 2018, none of the amounts included in other receivables were either past due or impaired (31 March 2018: nil).

**9. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH**

As at 30 September 2018, pledged bank deposits of HK\$200,000 (31 March 2018: HK\$200,000) represents deposits pledged to a bank to secure a bank borrowing, which carry interest at 0.1% (31 March 2018: 0.1%) per annum.

Bank balances earn interest at floating rates based on daily bank deposit rates.

**10. TRADE AND OTHER PAYABLES**

	<b>As at 30 September 2018 HK\$'000</b>	As at 31 March 2018 HK\$'000
	<i>Note</i>	
<b>Trade payables</b>		
To third parties	(a) <b>603</b>	195
<b>Other payables</b>		
Accrued charges and other payables	<b>2,807</b>	2,242
Deposits receipt in advance	<b>6,041</b>	6,431
	<b>8,848</b>	8,673
	<b>9,451</b>	8,868

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 30 September 2018 and 31 March 2018 were considered to be a reasonable approximation of their fair values.

**(a) Trade payables**

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

	<b>As at 30 September 2018 HK\$'000</b>	As at 31 March 2018 HK\$'000
0–30 days	<b>603</b>	194
31–60 days	<b>–</b>	1
	<b>603</b>	195

## 11. INTEREST-BEARING BORROWINGS

		<b>As at 30 September 2018 HK\$'000</b>	As at 31 March 2018 HK\$'000
<b>Non-current</b>			
Finance lease liabilities	(a)	<b>314</b>	335
<b>Current</b>			
Current portion of finance lease liabilities	(a)	<b>77</b>	87
Bank borrowings	(b)	<b>3,405</b>	4,922
		<b>3,482</b>	5,009
		<b>3,796</b>	5,344

- (a) The Group has entered into a finance lease for a motor vehicle. The lease period is for 5 years. Under the terms of the lease, the Group has the option to purchase the lease asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease. The lease does not include options to renew or any contingent rental provisions. The finance lease bears interest at fixed rate.

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

- (b) As at 30 September 2018 and 31 March 2018, all of the Group's bank borrowings contain a repayable on demand clause and are shown under current liabilities. The carrying amounts of bank borrowings are considered to be a reasonable approximate of their fair values.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased from approximately HK\$40.6 million for the six months ended 30 September 2017 to approximately HK\$42.7 million for the Relevant Period, representing a growth of approximately 5.3%. Such increase was mainly due to the increase in sale of furniture and home accessories, and food and beverage income.

### Cost of sales

The Group's cost of sales increased from approximately HK\$13.1 million for the six months ended 30 September 2017 to approximately HK\$14.2 million for the Relevant Period, representing an increase of approximately 8.8%. Such an increase was mainly attributable to the increase in the price for the goods purchased during the Relevant Period.

### Gross profit and gross profit margin

Our gross profit of the Group increased by approximately 3.7% from approximately HK\$27.5 million for the six months ended 30 September 2017 to approximately HK\$28.5 million for the Relevant Period.

## **Selling and marketing expenses**

Our selling and marketing expenses comprised (i) rental payments and related expenses for our shop premises, warehouses and office; (ii) staff costs attributable to the salary of our staff engaged in sales and marketing activities; (iii) marketing expenses; (iv) payment gateway charges attributable to fees for our payment channels such as credit cards or EPS; and (v) electricity and water expenses. Our selling and marketing expenses of the Group increased by approximately 10.8% from approximately HK\$17.3 million for the six months ended 30 September 2017 to approximately HK\$19.2 million for the Relevant Period. The increase was mainly due to the increase in rental payments and related expenses, staff costs and public relations expense.

## **Administrative expenses**

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

Our administrative expenses of the Group increased by approximately 39.4% from approximately HK\$5.5 million for the six months ended 30 September 2017 to approximately HK\$7.6 million for the Relevant Period. The increase was mainly attributable to the increase in recruitment costs, repairs and maintenance, and professional fees after listing.

## **Listing-related expenses**

During the six months ended 30 September 2017, the Group recognised non-recurring listing expenses of approximately HK\$4.7 million and nil during the Relevant Period in connection with the listing of the Company's shares on the GEM Board of Stock Exchange.

## **Share-based compensation expense**

Share-based compensation expense of the Group decreased to nil during the Relevant Period from approximately HK\$0.7 million for the six months ended 30 September 2017. Share-based compensation expense was incurred due to the Incentive Shares and the Put Option granted to Ms. Mary Kathleen Babington, a director of the Company, in June 2015. The decrease was mainly due to the end of the vesting period on 30 June 2017.

## **Income tax expense**

Income tax expense for the Group decreased by approximately 64.1% from approximately HK\$0.8 million for the six months ended 30 September 2017 to approximately HK\$0.3 million for the Relevant Period. The decrease was mainly due to the decrease in profit before tax, excluding the effect of non-deductible expenses.

## **Profit/(loss) for the period**

Our Group recorded a profit for the Relevant Period of HK\$1.5 million as compared to a loss of HK\$1.4 million for the six months ended 30 September 2017. The turnaround of the results was primarily attributable to (i) the absence of listing-related expenses and share-based compensation expense, and (ii) the increase in revenue and gross profit during the Relevant Period, partly offset by the increase in selling and marketing expenses, and administrative expense for the Relevant Period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2018, the Group had total assets of approximately HK\$64.0 million, which is financed by total liabilities and shareholders' equity of approximately HK\$13.2 million and HK\$50.8 million, respectively. The Group's current ratio at 30 September 2018 was approximately 4.5 compared to approximately 3.9 at 31 March 2018.

## **Gearing ratio**

The gearing ratio of the Group as at 30 September 2018 was approximately 7.5% while as at 31 March 2018 was approximately 10.8%. The gearing ratio decreased as a result of repayment of bank borrowings.

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

## **Capital expenditure**

Total capital expenditure for the six months ended 30 September 2018 was approximately HK\$1.0 million, which was mainly used in leasehold improvements.

## **Contingent liabilities**

As at 30 September 2018, there were no significant contingent liabilities for the Group.

## **Capital commitments**

As at 30 September 2018, there were no capital commitments of the Group related to purchase of property, plant and equipment (31 March 2018: nil).

## **Charges on group assets**

As at 30 September 2018, pledged bank deposits with carrying amount of approximately HK\$0.2 million (31 March 2018: HK\$0.2 million) and motor vehicle with net book value of approximately HK\$0.3 million (31 March 2018: HK\$0.4 million) were pledged as securities for the Group's certain banking facilities.

## BUSINESS REVIEW AND OUTLOOK

Headquartered in Hong Kong and operating under the brand name "TREE", we engage in (i) the sale and distribution of furniture and home accessories; (ii) consignment sales; (iii) the distribution and licencing of our intellectual property rights; (iv) the provision of styling and consulting services; and (v) the operation of TREE Café in our flagship store in Ap Lei Chau (the "**Flagship Store**"). We offer a variety of (i) furniture including tables, chairs, storage solutions, sofas and beds; and (ii) home accessories including kitchenware, bed and bathroom related products, jars, cushions, mattresses, utensils and baskets.

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

During the six months ended 30 September 2018, we generated revenue from the (i) sale of furniture and home accessories; (ii) distribution and license fee income; (iii) operation of TREE Café and (iv) consignment sales of home accessories. The table below sets forth a breakdown of our revenue for the six months ended 30 September 2018 and 2017:

	<b>Six months ended 30 September</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Sale of furniture and home accessories	<b>39,184</b>	37,580
Distribution and license fee income	<b>1,600</b>	1,880
Food and beverage income	<b>1,431</b>	750
Commission income	<b>74</b>	105
Consulting income	<b>438</b>	245
	<b>42,727</b>	40,560

For the six months ended 30 September 2018, our revenue amounted to approximately HK\$42.7 million, representing an increase of approximately HK\$2.2 million or 5.3% from approximately HK\$40.6 million for six months ended 30 September 2017. Such increase was mainly attributable to the increase in the sale of furniture and home accessories and food and beverage income.

## Sale of furniture and home accessories

TREE primarily sells its products to (i) retail customers who visited our retail stores, being the Direct Sales; and (ii) our PRC distributor, being the Distribution Sales. The following table sets forth a breakdown of our sale of furniture and home accessories by the Direct Sales and Distribution Sales for the six months ended 30 September 2018 and 2017, respectively.

	<b>Six months ended 30 September</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Revenue HK\$'000</b>	<b>% of total revenue from sale of furniture and home accessories %</b>	<b>Revenue HK\$'000</b>	<b>% of total revenue from sale of furniture and home accessories %</b>
<b>Direct Sales</b>				
Flagship Store	<b>28,516</b>	<b>72.8</b>	27,433	73.0
Sai Kung store <sup>(1)</sup>	<b>720</b>	<b>1.8</b>	1,167	3.1
Sha Tin store	<b>7,431</b>	<b>19.0</b>	7,845	20.9
Yuen Long store <sup>(2)</sup>	<b>1,561</b>	<b>4.0</b>	–	–
<b>Sub-total</b>	<b>38,228</b>	<b>97.6</b>	36,445	97.0
<b>Distribution Sales</b>	<b>956</b>	<b>2.4</b>	1,135	3.0
<b>Total</b>	<b>39,184</b>	<b>100</b>	37,580	100.0

Notes:

- (1) Our Sai Kung store ceased operations in May 2018.
- (2) Our Yuen Long store commenced operations in May 2018.

For the six months ended 30 September 2018, revenue generated from the Direct Sales amounted to approximately HK\$38.2 million, representing an increase of approximately HK\$1.8 million or 4.9% from approximately HK\$36.4 million for the six months ended 30 September 2017. Such increase was primarily attributable to the sales from the Yuen Long store which commenced operations since May 2018.

For the six months ended 30 September 2018, revenue generated from the Distribution Sales amounted to approximately HK\$1.0 million, representing a slight decrease of approximately HK\$0.1 million or 15.8% from approximately HK\$1.1 million for the six months ended 30 September 2017.

### **Distribution and license fee income**

We entered distribution agreements with our PRC distributor, and we are entitled to receive annual non-refundable fees of HK\$2.4 million and HK\$0.8 million from our PRC distributor for the distribution of our products in Beijing and Hainan province, the PRC, respectively. Our distribution and license fee income was approximately HK\$1.6 million for the six months ended 30 September 2018 and HK\$1.9 million for the six months ended 30 September 2017, respectively, representing approximately 3.7% and 4.6% of our total revenue for the six months ended 30 September 2018 and 2017, respectively.

We entered into licence agreements with American Tree, Ltd. ("**American Tree**") , as detailed in the Prospectus, pursuant to which, we granted an exclusive licence to American Tree to use certain trademarks and intellectual property of our Group in the United States and Canada for a term of three years from the listing date on 25 January 2018 (the "**Listing Date**"), for a license fee based on the revenue of American Tree. No license fee income was recognised from American Tree for the six months ended 30 September 2018 and 30 September 2017, respectively.

### **Food and beverage income**

Our food and beverage income generated from operating TREE Café in our Flagship Store was approximately HK\$1.4 million and HK\$0.8 million for the six months ended 30 September 2018 and 2017, respectively. Such increase was due to a better performance.

## **Commission income**

Our commission income comprised income generated from the sales of consignment goods. The commission income generated from consignment sales was approximately HK\$0.1 million and HK\$0.1 million for the six months ended 30 September 2018 and 2017, respectively.

## **Consulting income**

The consulting income generated during the six months ended 30 September 2018 and 2017, was HK\$0.4 million and HK\$0.2 million, respectively.

## **PROSPECTS**

The forthcoming financial year is expected to be challenging due to the competitive market conditions in the industry. In view of this, the management recognises the need to further enhance the Group's market presence in Hong Kong - steps already taken include a new retail store opened in Yuen Long in May 2018. The Group has also been proactively looking for potential locations to further open new retail stores and expanding the portfolio and reach of TREE in the market. The Group also sees increasing opportunities in styling and consulting services which would help to diversify the Group's revenue streams beyond the sale and distribution of furniture and home accessories. With these measures, the management believes that the Group will be able to maintain sustainable growth.

## USE OF PROCEEDS

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

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

During the period from the Listing Date to 30 September 2018, the Group has utilised HK\$3.9 million, or 17.2% of the actual net proceeds from the Listing for the staff costs of a trainer, an interior designer and a project manager; the establishment of an e-commerce platform; the enhancement of the POS system; and for the leasehold improvement, marketing, deposit and rental of the Yuen Long store opened in May 2018.

## DISCLOSURE OF INTERESTS

### Interests and short positions of the Company's Directors and chief executives in the Company's Shares, underlying shares and debentures and the Company's associated corporations

As at 30 September 2018, the interests or short positions of the Company's Directors in the Company's Shares, underlying shares or debentures which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the "required standard of dealings" as contained in Chapter 5 of the GEM Listing Rules, were as follows:

#### i. Long position in the Company's Shares

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of shares held (Note 1)</b>	<b>Percentage of shareholding</b>
Mr. TONG Tang Joseph ("Mr. Tong")	Interest in a controlled corporation (Note 2)	1,104,840,000 (L)	69.8%
Ms. Mary Kathleen Babington ("Ms. Babington")	Interest in a controlled corporation (Note 3)	59,400,000 (L)	3.7%
Ms. Nicole Lucy HASLOCK ("Ms. Haslock")	Interest in a controlled corporation (Note 4)	23,760,000 (L)	1.5%

*Notes:*

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such shares.
2. The Company is owned as to 69.8% by Tiptop. Tiptop is wholly-owned by Mr. Tong. Under the SFO, Mr. Tong is deemed to be interested in the same number of shares held by Tiptop.
3. The Company is owned as to 3.7% by Rothley Investment Limited ("**Rothley**"). Rothley is wholly-owned by Ms. Babington. Under the SFO, Ms. Babington is deemed to be interested in the same number of shares held by Rothley.
4. The Company is owned as to 1.5% by Savvy Consulting Limited ("**Savvy**"). Savvy is wholly-owned by Ms. Haslock. Under the SFO, Ms. Haslock is deemed to be interested in the same number of shares held by Savvy.

Saved as disclosed above, as of 30 September 2018, none of the Company's Directors and chief executives and their respective associates had or are deemed to have any interest or short positions in the Company's shares, underlying shares or debentures or the Company's associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register as referred to herein, or which were required to be notified to the Company and the Stock Exchange pursuant to the "required standard of dealing" as contained in Chapter 5 of the GEM Listing Rules.

## Interests and short positions of substantial Shareholders in the Company's Shares, underlying shares and debentures and the Company's associated corporations

As at 30 September 2018, so far as the Company's Directors are aware, the following persons (other than the Directors and chief executive of the Company) had, or were deemed to have, interests or short positions in the Company's shares or underlying shares which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, were interested in 10% or more of the issued voting shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company:

### i. Long position in the Company's Shares

Name of Shareholder	Nature of interest	Interests in shares (Note 1)	Percentage of shareholding
Tiptop	Beneficial owner (Note 2)	1,104,840,000 (L)	69.8%
Ms. Shum Yuet Wah Anna	Interest of spouse (Note 3)	1,104,840,000 (L)	69.8%

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
2. The Company is owned as to 69.8% by Tiptop.
3. Tiptop is wholly-owned by Mr. Tong, the Company's chairman, one of the Company's Non-Executive Directors and Controlling Shareholders. Under the SFO, Mr. Tong is deemed to be interested in the same number of shares held by Tiptop. Ms. Shum Yuet Wah Anna is the spouse of Mr. Tong. Under the SFO, Ms. Shum Yuet Wah Anna is deemed to be interested in all the Company's shares in which Mr. Tong is interested.

Save as disclosed above, as at 30 September 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the issued voting shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company.

## **COMPETING BUSINESS AND CONFLICT OF INTEREST**

As confirmed by the Directors, Controlling Shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of the Group, which competes or is likely to compete, directly or indirectly, with the business of the Group during the six months ended 30 September 2018.

## **INTERESTS OF COMPLIANCE ADVISER**

As at the date of this report, except for the compliance adviser agreement entered into between the Company and Oceanwide Capital Limited (the “**Compliance Adviser**”), neither the Compliance Adviser, nor any of its directors, employees or close associates have any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of the GEM Listing Rules.

## **PURCHASE, REDEMPTION OR SALES OF THE LISTED SECURITIES OF THE COMPANY**

The Company's shares were successfully listed on GEM on 25 January 2018. Save as the Listing, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2018.

## **CORPORATE GOVERNANCE CODE**

The Company and the Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. The Shares were successfully listed on GEM on 25 January 2018. To the best knowledge of the Board, during the period from the date of Listing to the date of this report, the Company has complied with the applicable code provisions of the CG Code.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Group has adopted a code of provisions of conduct regarding securities transactions by the Directors (the "**Code of Conduct**") on terms no less exacting than the required standards of dealings concerning securities transactions by the Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the Relevant Period.

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the Relevant Period.

## **SHARE OPTION SCHEME**

The Company adopted a share option scheme on 5 January 2018 (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-caliber employees and attract human resources that are valuable to our Group. The terms of the Scheme are in accordance with the provision of chapter 23 of the GEM Listing Rules.

During the Relevant Period and up to the date of this report, no share options were granted by the Company under the Share Option Scheme.

## AUDIT COMMITTEE

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

At present, our Audit Committee comprises Mr. Yeung Man Chung Charles, Mr. Tsang Wai Yin and Mr. Sit Hoi Wah Kenneth, all being Independent Non-Executive Directors. Mr. Yeung Man Chung Charles is the Chairman of our Audit Committee.

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the Relevant Period.

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

Hong Kong, 8 November 2018

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



TREE HOLDINGS LIMITED

齊家控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

*(於開曼群島註冊成立的有限公司)*

stock code 8395

