



ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

(formerly known as Chitaly Holdings Limited)

(Stock code: 1198)



2009

Interim Report

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang (*Chairman*)

Mr. Ma Gary Ming Fai
(*Chief Executive Officer*)

Mr. Lam Toi

Independent Non-Executive Directors

Dr. Donald H. Straszheim

Mr. Chang Chu Fai J. Francis

Mr. Yau Chung Hong

AUDIT COMMITTEE

Mr. Yau Chung Hong (*Chairman*)

Dr. Donald H. Straszheim

Mr. Chang Chu Fai J. Francis

REMUNERATION COMMITTEE

Mr. Chang Chu Fai J. Francis (*Chairman*)

Dr. Donald H. Straszheim

Mr. Yau Chung Hong

COMPANY SECRETARY

Mr. Chan Wing Kit, CPA

AUDITORS

Ernst & Young

SOLICITORS

DLA Piper Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(*Cayman*) Ltd.
Butterfield House 68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 28, Three Pacific Place,
1 Queen's Road East,
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

1198

RESULTS

The Board of Directors of Royale Furniture Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
REVENUE	3	250,864	407,528
Cost of sales		(164,028)	(268,858)
Gross profit		86,836	138,670
Other income and gains	3	27,665	18,442
Selling and distribution costs		(54,885)	(99,903)
Administrative expenses		(35,425)	(32,994)
Finance costs	5	(343)	(2,109)
Share of profits of associates		229	1,811
PROFIT BEFORE TAX	4	24,077	23,917
Tax	6	(1,151)	(1,070)
PROFIT FOR THE PERIOD		22,926	22,847
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		21,893	21,587
MINORITY INTEREST		1,033	1,260
		22,926	22,847
DIVIDENDS	7		
Proposed interim		7,468	3,734
EARNINGS PER SHARE			
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD	8		
Basic		4.9 cents	6.5 cents
Diluted		N/A	6.1 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Profit for the period	22,926	22,847
Other comprehensive income for the period		
Exchange difference arising from translation of overseas operations	(666)	323
Total comprehensive income for the period	22,260	23,170
Attributable to:		
Equity holders of the company	21,227	21,910
Minority interests	1,033	1,260
	22,260	23,170

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		390,623	398,914
Prepaid land lease payments		37,820	37,859
Other intangible assets		4,875	4,880
Interest in associates		32,234	32,005
Total non-current assets		465,552	473,658
CURRENT ASSETS			
Inventories		92,173	111,607
Trade receivables	9	38,174	66,544
Prepayments, deposits and other receivables		56,368	60,747
Cash and cash equivalents		93,368	40,414
Total current assets		280,083	279,312
CURRENT LIABILITIES			
Trade payables	10	66,418	86,494
Other payables and accruals		66,988	110,518
Interest-bearing bank loan		8,697	28,697
Tax payable		63,506	62,355
Total current liabilities		205,609	288,064
NET CURRENT ASSETS/(LIABILITIES)		74,474	(8,752)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		540,026	464,906

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	30 June 2009 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loan	26,164	10,645
Deferred tax liabilities	—	—
Total non-current liabilities	26,164	10,645
Net assets	513,862	454,261
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Issued capital	46,676	31,117
Reserves	454,157	413,948
Proposed final dividend	—	4,668
Proposed interim dividend	7,468	—
	508,301	449,733
Minority interests	5,561	4,528
Total equity	513,862	454,261

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six Month ended 30 June 2009

	Attributable to equity holders of the company									
	Issued share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008	31,117	177,587	10,279	20,150	57,044	229,873	7,779	533,829	4,442	538,271
Exchange realignment	—	—	—	—	323	—	—	323	—	323
Profit for the period	—	—	—	—	—	21,587	—	21,587	1,260	22,847
Total comprehensive income for the period	—	—	—	—	323	21,587	—	21,910	1,260	23,170
Payment of final 2007 dividend	—	—	—	—	—	—	(7,779)	(7,779)	—	(7,779)
Interim 2008 dividend declared	—	—	—	—	—	(3,734)	3,734	—	—	—
At 30 June 2008	31,117	177,587*	10,279*	20,150*	57,367*	247,726*	3,734	547,960	5,702	553,662
	Issued share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2009	31,117	177,587	10,702	—	93,814	131,845	4,668	449,733	4,528	454,261
Exchange realignment	—	—	—	—	(666)	—	—	(666)	—	(666)
Profit for the period	—	—	—	—	—	21,893	—	21,893	1,033	22,926
Total comprehensive income for the period	—	—	—	—	(666)	21,893	—	21,227	1,033	22,260
Open offer on the basis of one share to two shares	15,559	26,450	—	—	—	—	—	42,009	—	42,009
Payment of final 2008 dividend	—	—	—	—	—	—	(4,668)	(4,668)	—	(4,668)
Interim 2009 dividend declared	—	—	—	—	—	(7,468)	7,468	—	—	—
At 30 June 2009	46,676	204,037*	10,702*	—*	93,148*	146,270*	7,468	508,301	5,561	513,862

* These reserve accounts comprises the consolidated reserves of HK\$454,157,000 (30 June 2008: HK\$513,109,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009

	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Audited)
Net cash inflow from operating activities	27,606	4,828
Net cash outflow from investing activities	(6,845)	(41,881)
Net cash inflow from financing activities	32,859	19,627
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	53,620	(17,426)
Cash and cash equivalents at beginning of period	40,414	51,447
Effect of foreign exchange rate changes, net	(666)	323
CASH AND CASH EQUIVALENTS AT END OF PERIOD	93,368	34,344
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	93,368	34,344

NOTES TO FINANCIAL STATEMENTS

30 June 2009

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information, which comprises the condensed consolidated statement of financial position as at 30 June 2009 and the related condensed consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes have been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial information does 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 2008 (“Annual Report”).

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

On 1 January 2009, the Group adopted the revised HKAS 1 ‘Presentation of Financial Statements’. The revised standard aims to improve users’ ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in the Group’s condensed consolidated financial statements. It does, however, result in certain presentational changes, including:

- the presentation of all items of income and expenditure in two financial statements, the ‘Condensed consolidated income statement’ and the ‘Condensed consolidated statement of comprehensive income’; and
- the presentation of the ‘Condensed consolidated statement of changes in equity’.

During the period ended 30 June 2009, the Group adopted a number of amendments to standards and interpretations which had an insignificant effect on the condensed consolidated interim financial statements. These are described on pages 40 to 41 of the Annual Report 2008.

The accounting policies adopted in the presentation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008, except as discussed aforementioned.

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, in predecessor Standard (HKAS 14 Segment Reporting) required an equity to identify two sets of segments (business and geographical) using a risk and returns approach, with the equity's system of internal financial reporting to key management personnel serving only as starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS8 has not resulted in a re-designation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment of profit or loss.

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by operating segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments is to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating maker in order to allocate resources to the segments and to access their performance. Summary details of the business segments are as follows:

- (a) Franchise operation segment engages in the sale of home furniture through franchise operation; and
- (b) Self-operating shops segment engages in the sale of home furniture through self-operating shops;

2. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(i) Operating segment

The following table presents revenue, profit and expenditure information for the Group's operating segment for the period ended 30 June 2009 and 2008.

Period ended 30 June 2009	Self-operating		Elimination HK\$'000	Total HK\$'000
	Franchise HK\$'000	shops HK\$'000		
Segment revenue:				
Sales to customers	181,634	69,230	—	250,864
Intersegment sales	26,503	—	(26,503)	—
	208,137	69,230	(26,503)	250,864
Segment results	26,627	4,673	—	31,300
Unallocated gains				19
Unallocated expenses				(7,128)
Finance costs				(343)
Share of profits of associates				229
Profit before tax				24,077
Tax				(1,151)
Profit for the period				22,926

2. SEGMENT INFORMATION (Continued)

(i) Operating segment (Continued)

Period ended 30 June 2008	Franchise HK\$'000	Self-operating shops HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue:				
Sales to customers	348,580	58,948	—	407,528
Intersegment sales	26,163	—	(26,163)	—
	<u>374,743</u>	<u>58,948</u>	<u>(26,163)</u>	<u>407,528</u>
Segment results	<u>25,853</u>	<u>3,261</u>	<u>—</u>	<u>29,114</u>
Unallocated gains				521
Unallocated expenses				(5,420)
Finance costs				(2,109)
Share of losses of an associate				<u>1,811</u>
Profit before tax				23,917
Tax				<u>(1,070)</u>
Profit for the period				<u>22,847</u>

2. SEGMENT INFORMATION (Continued)

(ii) Geographical segment

The following table present revenue, for the Group's geographical segment for the six months ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Segment revenue		
Sales to the PRC	235,046	384,756
Sales to elsewhere in Asia	1,474	3,567
Sales to Europe	1,131	4,159
Sales to Middle East	13,213	15,046
	250,864	407,528

3. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	250,864	407,528
Other income and gains		
Bank interest income	116	147
Accessories income	25,633	17,774
Others	1,916	521
	27,665	18,442
	278,529	425,970

4. PROFIT BEFORE TAX

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

	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of goods sold	164,028	268,858
Depreciation	15,179	15,268
Amortisation of licence rights of trademarks	332	338
Interest income	(116)	(147)
Accessories income	(25,633)	(17,774)

5. FINANCE COSTS

	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loan	343	2,109

6. TAX

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current-PRC corporate income tax	1,151	1,070
Total tax charge for the period	1,151	1,070

Pursuant to the Macao SAR's Offshore Laws, Sino Full Macao Commercial Offshore Limited ("Sino Full"), a Macao offshore company, is exempted from all the taxes in Macao, including income tax, industrial tax and stamp duties.

6. TAX (Continued)

According to the Income Tax Law of the People's Republic of China ("PRC") on enterprises with foreign investment and foreign enterprise, Guangzhou Full Fat Furniture Limited ("Fufa"), Guangzhou Yufa Furniture Company Limited ("Yufa"), Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply (Dongguan) Furniture Limited ("Simply"), wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a corporate income tax rate of 25%. These subsidiaries are also exempted from PRC corporate income tax for the first two profitable years of their operations and are eligible to a 50% reduction from PRC corporate income tax for the following three years.

Tax rate of Simply was 12.5% as it was in its fifth profit making year. No corporate income taxes were made by management for Yufa as it was in its second beneficial year. Fuli started to operate in October, 2008, and has not gained any profit yet.

The PRC Corporate Income Tax Law ("the New Corporate Income Tax Law"), which was approved in the 5th Session of the 10th National People's Congress concluded on 16 March 2007, became effective on 1 January 2008. The New Corporate Income Tax Law introduced a wide range of changes which include, but were not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises, resulting in a change of income tax rate. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. However, the change in tax rate has had no material impact on the results and financial position of the Group for the period ended 30 June 2009.

7. DIVIDENDS

A dividend in respect of the six months ended 30 June 2009 of HK1.6 cents (2008: HK1.2 cents) per share, amounting to a total dividend of approximately HK\$7,468,000 was proposed by the Board on 14 September 2009. This condensed consolidated financial statements has not reflected this dividend payable.

8. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profits from ordinary activities attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue as adjusted by the open offer during the period.

The calculation of diluted earnings per share amount is based on the profits from ordinary activities attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

8. EARNINGS PER SHARE (Continued)

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

	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation:	21,893	21,587
	Number of shares	
	2009	2008
	(Unaudited)	(Unaudited)
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	442,542,000	334,103,000
Effect of dilution-weighted average number of ordinary shares:		
Share options	—	17,608,000
	442,542,000	351,711,000

9. TRADE RECEIVABLES

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

9. TRADE RECEIVABLES (Continued)

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

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Within 30 days	8,158	42,642
31 days to 90 days	15,739	16,722
91 days to 180 days	9,437	4,642
Over 180 days	4,840	2,538
	38,174	66,544

10. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Within 30 days	37,626	54,776
31 days to 90 days	27,079	30,001
91 days to 180 days	365	806
181 days to 360 days	1,348	483
Over 360 days	—	428
	66,418	86,494

11. POST BALANCE SHEET EVENTS

On 20 July 2009, a total of 37,600,000 share options were granted to certain directors and employees of the Company in respect of their services to the Group in the forth coming year. These share options have an exercise price of HK\$0.52 per share and validity period of the share options is ranging from 20 July 2010 to 19 July 2020. The price of the Company's share at the grant date was HK\$0.52 per share. The Company had 37,600,000 share options outstanding under the scheme at the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2009 has been a challenging period for all economies and businesses in the aftermath of the global financial crisis that hit in the second half of 2008 and no exception for China. Decline in consumer confidence in the China property market resulting from tightened credit control not only affected the property market but also the furniture industry.

For the six months ended 30 June 2009, although the Group recorded a drop in revenue to HK\$250.9 million (2008: HK\$407.5 million) because of the one-off project income made in the last corresponding period from the Beijing 2008 Olympics, it was able to report profit attributable to equity holders of HK\$21.9 million (2008: HK\$21.6 million) despite the dire macroeconomic environment. This achievement was attributable to the Group's strong brand enhanced by the Olympic project, improved production efficiency and optimised operational restructure. Gross profit margin also improved to 34.6% (2008: 34.0%). If the one-off Olympic-related revenue in the last corresponding period was excluded, the gross margin for that period would be 31.1%, meaning the gross profit margin for the review period would have grown close to 3.5 percentage points. Net margin was up significantly from 5.3% to 8.7%.

In the first half of 2009, economies worldwide remained weak and market sentiment in China was inevitably affected. The situation was especially alarming in the first quarter as reflected in the overall slowdown of sales of the Group. To maintain industry leadership in the challenging environment, the Group focused efforts on strengthening its foundation and operation.

In October 2008, the Group started to merge two production bases into one to put under the roof of its Guangzhou headquarters. The merge was completed in November 2008 and since then the Group has been enjoying higher production efficiency and better utilisation of resources, and in turn lower production costs. To encourage better performance among employees, it raised the performance targets of the workforce and different operational units. All these initiatives contributed to the increased profit margins of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Responding to slower orders from franchisees in early 2009, the Group offered various discount packages to stimulate sales of franchisees. Although revenue from franchise business dropped during the period, the gross margin of the business stood at 26.6%. As for the self-operating shops, revenue grew to HK\$69.2 million and gross profit margin was maintained at 55.8% albeit the weak market, thanks to the Group's strategy to customise products of various self-operating shops to meet local consumers' preference. The Group was prudent in expanding its sales network during the review period.

Following the success with the Olympic project and reputed as a leading furniture manufacturer in China, the Group has won a contract from the Shenzhen Government, China to supply home furniture for the 26th Summer Universiade, Shenzhen, of which the scale and influence are second to the Olympic Games, in 2011.

For the "Royal Furniture" brand fortified as a result of the Olympic project, the Group continued to inject new elements to keep its image vibrant and fresh. In March 2009, the Group appointed Ms. Carina Lau, a well-known movie star in China and Hong Kong, as the new spokesperson of "Royal Furniture". Franchisees are encouraged to use TV commercials, posters, video clips, newspaper advertisement, etc. featuring Ms. Lau to reach more customers. The new appointment was welcomed by franchisees.

During the period, the Group offered nine products series including Light Walnut, Black Walnut, Sabili, Olympic Home, Beech, Maestoso, Simplified, Oriental Living and Bali, targeting mid-to high-end markets. The wide range of products enabled the Group to capture different customer segments and helped mitigate the impact on sales from the fluctuating market during the period.

In February 2009, the Company completed an open offer of one share for every two shares held at the offer price of HK\$0.27 per share and raised net proceeds of approximately HK\$40 million. The purpose of the offer was to boost working capital for the Group to better cope with the uncertain economic environment.

Subsequent to the open offer, the Group's substantial shareholder, Mr. Tse Kam Pang, who is also an Executive Director and a founder of the Group, proposed a partial cash offer to acquire 26.04% of the issued shares of the Company at the price of HK\$0.33 per share. The offer was completed in July 2009 and Mr. Tse's stake in the Company was increased to 51%. This offer reflected the confidence and support the top management has for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECTS

At the massive economic stimulus packages implemented by governments worldwide, the global economy has stabilised. In China, the retail and property markets also saw moderate improvement in the second quarter of the year. Nevertheless, while cautiously optimistic about the prospects of the furniture industry in the foreseeable future, the Group will continue to strengthen its core attributes including its strong brand position and design capabilities, and sales networks to make sure it can overcome the challenges still to arise and is ready to capture business opportunities when the market recovers.

In the first half of 2009, the furniture industry consolidated quickly as a result of keen competition in the market and the slack global economy, leaving the stronger players like Royale Furniture as the final survivors. Apart from enriching its product range to meet the more sophisticated demand of consumers in China, the Group will place more emphasis on 2nd and 3rd tier cities promising strong growth potential.

Committed to maximising returns to shareholders, the management will strive to strengthen the business foundation, brand status and distribution network of the Group in China aiming to maintain a strong and sustainable business in the years ahead.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and bank balances of HK\$93.3 million as at 30 June 2009 (31 December 2008: HK\$40.4 million).

As at 30 June 2009, except for an interest-bearing bank loan amounting to HK\$34.9 million, the Group had no other bank borrowings and contingent liabilities. As at the same date, the gearing ratio (liabilities/shareholder's equity) was 0.45 (31 December 2008: 0.66).

As at 30 June 2009, approximately 99% of the Group's cash was denominated in Renminbi. The exposure to exchange fluctuation was minimal.

As at 30 June 2009, the current ratio (current assets/current liabilities) was 1.36 times (31 December 2008: 0.97) and the net current assets was HK\$74 million (31 December 2008: Net current liabilities: HK\$9 million).

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2009 was approximately 2,300 (2008: 3,300). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. As at 30 June 2009, there were no outstanding share options.

DIVIDEND

The Board of Directors recommends a payment of an interim dividend of HK1.6 cents (2008: HK1.2 cents) per share for the six months ended 30 June 2009. The interim dividend will be distributed on or about 16 October 2009 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 13 October 2009.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 8 October 2009 to 13 October 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Registrar and Registration Office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 3:00 p.m. on 7 October 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE REVIEW

The accounting information given in this interim report has not been audited but has been reviewed by the audit committee of the Company. The audit committee has not undertaken independent audit checks.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted for compliance by the directors the code of conduct for dealings in securities of the Company as set out in Appendix 10-Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), of the Listing Rules on 27 August 2005.

Having made specific enquiry to all the directors of the Company, they have complied with the required standards set out in the Model Code for the period ended 30 June 2009.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities for the period ended 30 June 2009.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES AND DEBENTURES

As at 30 June 2009, the interests and short positions of the Directors and chief executive in the shares (the "Shares") 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, were as follows:

Long positions in Shares and underlying Shares of the Company:

Name of Directors	Long position/ Short position	Number of Shares	Aggregate percentage of interest as at 30 June 2009 ¹
Tse Kam Pang	Long position	116,403,000 ²	24.94%
Ma Gary Ming Fai	Long position	9,918,000 ³	2.20%
Yau Chung Hong	Long position	1,665,000 ⁴	0.36%

Notes:

1. This represents the percentage of aggregate long position in Shares and underlying Shares to the total issued share capital of the Company as at 30 June 2009.
2. Of these 116,403,000 Shares, 9,228,000 Shares were held by Mr. Tse Kam Pang personally and 107,175,000 Shares were held by Crisana International Inc., a company which is wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the 107,175,000 Shares held by Crisana International Inc.
3. Of these 9,918,000 Shares, 7,221,000 Shares were held by Mr. Ma Gary Ming Fai personally, and 2,697,000 Shares were held by Upwise Investments Limited, a company which is wholly and beneficially owned by Mr. Ma Gary Ming Fai, who is deemed to be interested in the 2,697,000 Shares held by Upwise Investments Limited.
4. Of a total of 1,665,000 Shares, 600,000 Shares were held by Mr. Yau Chung Hong personally and 1,065,000 Shares were held by CNI Assets Management Limited, a company incorporated in Hong Kong with limited liability and its entire issued share capital is wholly owned by Mr. Yau Chung Hong.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES AND DEBENTURES (Continued)

Save as disclosed above, as at 30 June 2009, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2009, 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 position:

Name of Shareholder	Capacity and nature of interest	Number of ordinary shares held	Aggregate percentage of interest as at 30 June 2009 ¹
Crisana International Inc.	Directly beneficially owned	107,175,000 ²	22.96%
Assetbest Limited	Directly beneficially owned	48,408,000 ³	10.37%
Fidelity International Limited	Directly beneficially owned	28,183,038	6.04%

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

Notes:

1. This represents the percentage of aggregate long position in Shares and underlying Shares to the total issued share capital of the Company as at 30 June 2009.
2. These 107,175,000 Shares were held by Crisana International Inc., a company which is wholly and beneficially owned by Mr. Tse Kam Pang, the Chairman of the Company, who is deemed to be interested in the 107,175,000 Shares held by Crisana International Inc. In addition, Mr. Tse Kam Pang personally held 9,228,000 Shares.
3. These 48,408,000 Shares were held by Assetbest Limited, a company which is wholly and beneficially owned by Mr. Huang Wai Jei, who is therefore deemed to be interested in the 48,408,000 Shares held by Assetbest Limited.

Save as disclosed above, as at 30 June 2009, 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.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 15 September 2009