



Universiade SHENZHEN 2011  
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**Royal**  
FURNITURE  
**皇朝傢俬**

Sponsor of the category of life and office furniture in the 26th Universiade SHENZHEN

## Interim Report 2011



**ROYALE FURNITURE HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### **Executive Directors**

Mr. Tse Kam Pang (*Chairman*)  
Mr. Ma Gary Ming Fai  
(*Chief Executive Officer*)  
Mr. Zeng Le Jin  
(*Chief Operating Officer*)  
Mr. Lam Toi

#### **Independent Non-Executive Directors**

Dr. Donald H. Straszheim  
Mr. Chang Chu Fai J. Francis  
Mr. Lau Chi Kit

### **AUDIT COMMITTEE**

Dr. Donald H. Straszheim  
Mr. Chang Chu Fai J. Francis  
Mr. Lau Chi Kit

### **REMUNERATION COMMITTEE**

Mr. Chang Chu Fai J. Francis  
(*Chairman*)  
Dr. Donald H. Straszheim  
Mr. Lau Chi Kit

### **COMPANY SECRETARY**

Ms. Chan Wei Fun, CPA

### **AUDITORS**

Ernst & Young

### **SOLICITORS**

DLA Piper Hong Kong

### **PRINCIPAL BANKER**

Hang Seng Bank Limited  
Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai  
Banking Corporation 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  
26th Floor, Tesbury Centre,  
28 Queen's Road East,  
Hong Kong

### **REGISTERED OFFICE**

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
Grand Cayman  
Cayman Islands  
British West Indies

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Room 204, 2/F  
Wing On Plaza  
62 Mody Road  
Tsim Sha Tsui East  
Kowloon, Hong Kong

### **STOCK CODE**

1198

### **INVESTOR RELATIONS**

Tel: (852) 2636-6648  
Email: info@chitaly.com.hk

## MANAGEMENT DISCUSSION AND ANALYSIS

- Achieved respectable growth rates:
  - sales at: 30.7%
  - gross profit at: 40.3%
  - net profit at: 50.8%
- Committed to a growth plan:
  - Establishing new production facilities in both Tianjin and Nanchang to meet the demand of target customers in the adjacent regions
- Cautiously optimistic toward the second half of 2011 despite of the tightened credit environment in China

## BUSINESS REVIEW

In order to curb potentially runaway inflation, the People's Bank of China raised interest rates three times thus far in 2011, most recently on 7 July 2011, which put the one-year deposit rate at 3.5% and the one-year benchmark lending rate at 6.56%. To date, even though the tightening monetary policy has to a certain extent dampened the ever growing appetite of Chinese consumers, China still managed a GDP growth rate of 9.7% and 9.5% in the first and second quarters of 2011, respectively. Nonetheless, the furniture industry experienced a significant slow-down within some regions during the first half of the year.

For the six months period ended 30 June 2011, the Group's turnover recorded a healthy growth rate of 30.7% reaching HK\$712.2 million (2010: HK\$545.1 million), due to the Group's unique growth strategy. Gross profit rose 40.3% to HK\$223.7 million (2010: HK\$159.4 million) greatly assisted by the improved gross profit margin at 31.4% (2010: 29.3%).

The positive impact of the Group's rigorous cost management policies previously implemented carried over to the period under review. Noteworthy was the Group's success in maintaining the ratio of selling and distribution and administrative expenses to revenue at 18% (2010: 18%). This, in turn, helped boost profit attributable to equity holders by almost 50.8% to HK\$90.5 million (2010: HK\$60.0 million). Accordingly, the Group's net profit margin improved to 12.7% (2010: 11.0%).

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **BUSINESS REVIEW** *(Continued)*

During the period under review, the Group has been growing its business across many fronts. First and foremost, it continued to focus its sales strategy on same store sales growth. The expansion of same store sales was able to keep up with the overall same store sales growth rate of 2010.

To realise previously missed sales opportunities, the Group has implemented a distribution strategy of multiple franchisees within the same city since January 2011. This differs from the past when each franchisee had an exclusive dealership of all product series within that city which sometimes resulted in many product series ended up not being available-for-sale. This new growth strategy enables the Group to accelerate the opening of more stores as well as ensuring the availability of more products series, ultimately boosting sales.

In further advancing its 2010 strategy to promote its sofa products, during the period under review, the Group continued to refine its sofa product line while launching sofa specialty stores which only offer sofas and related products. Some of the new sofas would be positioned at the high end instead of the middle segment as in the past. The response of its franchisees to the new “Royal Sofa” specialty stores across various regions of China has been highly enthusiastic. This “Royal Sofa” product channel strategy together with the new growth strategy should help assure sustainable growth in the foreseeable future.

In terms of management capabilities, the senior executives that the Group has recruited with a fast moving consumer goods background have continued to benefit the Group through new management ideas as well as bolster the professionalism of its operational management. The new head of advertising and branding together with the head of the franchisee dealers’ network and the head of the self-operating stores network have formed a sales operations sub-committee. The close interaction of these three department heads enables a proactive and timely fine tuning of the Group’s sales policies and product marketing activities including advertising and promotions. Similarly, the efforts of the new head of the post-sales dealers’ services unit have achieved for the Group a higher level of franchisee satisfaction through more prompt after sales services.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **BUSINESS REVIEW (Continued)**

The Group has been actively planning for the two new production facilities at Wuqing in Tianjin Municipality and at Nanchang in Jiangxi Province to come on stream in 2012. During the period under review, the Group was also expanding its current production facilities at the three existing plants in order to prepare to meet the demand of the peak sales period in the later part of 2011.

Subsequent to the Beijing 2008 Olympic Games, the Group also won the contract as the sponsor of furniture products to the 26<sup>th</sup> Summer Universiade held at Shenzhen during August 2011. The Universiade serves as a major warm-up competition for many of the world's top athletes before the London 2012 Olympic Games. During the period under review, the Group has produced all of the specifically ordered products ready for timely delivery to the Universiade sites in July and August.

### **PROSPECTS**

While initially aimed at curbing rising property prices and then inflation, the Government's restrictive monetary measures also have adversely affected the furniture industry, as potential home buyers defer their decisions to purchase property which, in turn, postpones the purchase of home furniture products. This phenomenon is most obvious within first-tier cities and some of the second-tier cities. Nevertheless, the Group believes that the Government does not intend to dampen property market demand in general, as it has announced its intention to build 10 million units of affordable housing during 2011 alone. The Group is encouraged by this policy as a portion of the families moving into these units would likely aspire to purchase quality furniture items including Royal Furniture's products.

As long as the Government's urbanisation policy remains unchanged, there will be millions of households migrating from rural villages into the county townships or the fourth-tier cities, which means that there will be continuous demand for housing units — and furniture — in the lower tier cities. The Group will work diligently with potential franchisees to tap and serve this high growth market.

## PROSPECTS *(Continued)*

The Group's new product penetration strategy enlisting multiple franchisees to sell all of its product series in each city will definitely assure the continued expansion of the store network. In addition, the recent launch of the "Royal Sofa" specialty stores will also provide another channel to drive further business growth. Overall, the management is cautiously optimistic about the foreseeable future despite the current tightened credit environment.

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

As at 30 June 2011, 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	Number of share options <sup>1</sup>	Aggregate percentage of interest as at 30 June 2011 <sup>2</sup>
Tse Kam Pang	Long position	256,639,222 <sup>3</sup>	–	37.77%
Ma Gary Ming Fai	Long position	14,040,633 <sup>4</sup>	4,600,000	2.74%
Zeng Le Jin	Long position	2,020,000	2,600,000	0.68%
Donald H. Straszheim	Long position	–	1,000,000	0.15%
Chang Chu Fai	Long position	–	750,000	0.11%
Johnson, Franics				

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

***(Continued)***

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

Notes:

1. The number of share options refers to the number of underlying shares of the Company covered by the share options granted to them.
2. 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 2011.
3. Of these 256,639,222 shares, 22,204,234 shares were held by Mr. Tse Kam Pang personally, 110,127,479 shares and 124,307,509 shares were held by Crisana International Inc. and Charming Future Holdings Limited, respectively, which are wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the aggregate of 234,434,988 shares held by these companies.
4. Of these 14,040,633 shares, 9,011,248 shares were held by Mr. Ma Gary Ming Fai personally, 2,697,000 shares were held by Upwise Investments Limited, and 2,332,385 shares held by Ms. Hung Fung King Margaret. Upwise Investments Limited 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. Ms Hung Fung King Margaret is Mr. Ma Gary Ming Fai's wife.

Save as disclosed above, as at 30 June 2011, 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 2011, 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 Shareholders	Capacity and nature of interest	Number of ordinary shares held	Aggregate percentage of interest as at 30 June 2011 <sup>1</sup>
Crisana International Inc.	Directly beneficially owned	110,127,479 <sup>2</sup>	16.21%
Charming Future Holdings Limited	Directly beneficially owned	124,307,509 <sup>3</sup>	18.29%
Identical Development Limited	Directly beneficially owned	42,034,942 <sup>4</sup>	6.19%

### 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 2011.
2. These 110,127,479 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 110,127,479 Shares held by Crisana International Inc. In addition, Mr. Tse Kam Pang personally held 22,204,234 Shares.
3. These 124,307,509 Shares were held by Charming Future Holdings Limited, 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 124,307,509 Shares held by Charming Future Holdings Limited. In addition, Mr. Tse Kam Pang personally held 22,204,234 Shares.



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

Long position: *(Continued)*

Notes: *(Continued)*

4. According to the register of members of the Company, these 42,034,942 Shares were held by Identical Development Limited, a company which is wholly and beneficially owned by Mr. Zeng Peng Fei, who is therefore deemed to be interested in the 42,034,942 Shares held by Identical Development Limited.
5. As disclosed in the disclosure of interests form filed by Value Partners Limited on 12 August 2011, 48,316,855 shares (representing approximately 7.11% of the issued share capital of the Company as at the report date) were held by Value Partners Limited in its capacity as an investment manager. These 48,316,855 shares as referred to in this note 5 represent the same block of shares in which all the relevant parties as described below are deemed under the SFO to be interested.

Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 28.69% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust while To Hau Yin is the spouse of Cheah Cheng Hye.

Save as disclosed above, as at 30 June 2011, 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.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group maintained cash and bank balances of HK\$234.0 million as at 30 June 2011 (31 December 2010: HK\$238.2 million).

As at 30 June 2011, the Group had interest bearing bank loans total to HK\$207.0 million (31 December 2010: HK\$95.2 million) and no contingent liabilities. As at the same date, the net debt divided by capital plus net debt of the Group was 10% (31 December 2010: 6%).

As at 30 June 2011, approximately 55% of the Group's cash was denominated in Renminbi. The exposure to the exchange fluctuation was minimal.

As at 30 June 2011, the current ratio (current assets/current liabilities) was 2.28 times (31 December 2010: 1.88) and the net current assets was HK\$447.1 million (31 December 2010: HK\$315.3 million).

## **EMPLOYMENT AND REMUNERATION POLICY**

The total number of employees of the Group as at 30 June 2011 was approximately 4,412 (2010: 3,800). 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.

## **DIVIDEND**

The Board of Directors recommends a payment of an interim dividend of HK3.0 cents (2010: HK1.6 cents) per share for the six months ended 30 June 2011. The interim dividend will be distributed on or about 27 October 2011 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 October 2011.

## **CLOSURE OF THE REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 28 September 2011 to 4 October 2011, 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 4:30 p.m. on 27 September 2011.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

## **AUDIT COMMITTEE REVIEW**

The accounting information given in this interim 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, the directors confirmed that they had complied with the Model Code for the period ended 30 June 2011.

## **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 2011.

## RESULTS

The Board of Directors (the “Board”) 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 2011 together with the comparative figures for the corresponding period in 2010. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2011*

	Notes	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
REVENUE	3	<b>712,191</b>	545,088
Cost of sales		<b>(488,489)</b>	(385,667)
Gross profit		<b>223,702</b>	159,421
Other income and gains	3	<b>9,839</b>	7,882
Selling and distribution costs		<b>(80,810)</b>	(60,360)
Administrative expenses		<b>(47,435)</b>	(37,818)
Finance costs	5	<b>(2,772)</b>	(2,179)
Share of profits of associates		<b>1,363</b>	3,002
PROFIT BEFORE TAX	4	<b>103,887</b>	69,948
Tax	6	<b>(7,078)</b>	(2,213)
PROFIT FOR THE PERIOD		<b>96,809</b>	67,735

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2011

	<b>2011</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2010 HK\$'000 (Unaudited)
ATTRIBUTABLE TO:		
OWNERS OF THE COMPANY	<b>90,454</b>	60,037
MINORITY INTEREST	<b>6,355</b>	7,698
	<b>96,809</b>	67,735
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD		
Basic	<b>13.96 cents</b>	11.1 cents
Diluted	<b>13.32 cents</b>	10.6 cents

Details of the dividends payable and proposed for the period are disclosed in note 7 to the financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2011

	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Profit for the period	<b>96,809</b>	67,735
Other comprehensive income for the period		
Exchange difference arising from translation of foreign operations	<b>13,728</b>	5,430
Available-for-sale assets:		
Changes in fair value	<b>(8)</b>	(1,797)
Total comprehensive income for the period	<b>110,529</b>	71,368
Attributable to:		
Owners of the Company	<b>103,183</b>	63,365
Minority interests	<b>7,346</b>	8,003
	<b>110,529</b>	71,368

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>617,016</b>	520,329
Prepaid land lease payments		<b>97,114</b>	93,698
Goodwill		<b>123,317</b>	64,427
Intangible assets		<b>3,179</b>	3,178
Interest in associates		<b>53,093</b>	49,910
Available-for-sales investments		<b>7,406</b>	7,456
Other non-current assets		<b>–</b>	69,890
<b>Total non-current assets</b>		<b>901,125</b>	808,888
<b>CURRENT ASSETS</b>			
Inventories		<b>292,680</b>	215,370
Trade receivables	9	<b>79,350</b>	54,569
Prepayments, deposits and other receivables		<b>191,035</b>	164,795
Cash and cash equivalents		<b>233,980</b>	238,199
<b>Total current assets</b>		<b>797,045</b>	672,933
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>78,631</b>	101,928
Other payables and accruals		<b>81,399</b>	105,308
Interest-bearing bank loans		<b>103,244</b>	72,288
Tax payable		<b>86,651</b>	78,116
<b>Total current liabilities</b>		<b>349,925</b>	357,640
<b>NET CURRENT ASSETS</b>		<b>447,120</b>	315,293
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,348,245</b>	1,124,181

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	<b>30 June 2011 HK\$'000 (Unaudited)</b>	31 December 2010 HK\$'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loan	<b>103,764</b>	22,903
Deferred tax liabilities	<b>849</b>	849
Total non-current liabilities	<b>104,613</b>	23,752
Net assets	<b>1,243,632</b>	1,100,429
EQUITY		
Equity attributable to owners of the Company		
Issued capital	<b>67,955</b>	63,788
Reserves	<b>1,115,278</b>	956,971
Proposed final dividend	–	57,409
Proposed interim dividend	<b>20,386</b>	–
	<b>1,203,619</b>	1,078,168
Minority interests	<b>40,013</b>	22,261
Total equity	<b>1,243,632</b>	1,100,429



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month ended 30 June 2011

	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Available- for-sale		Exchange		Retained profits	Proposed dividend	Total	Minority interests	Total equity
			Share option reserve	investment revaluation reserve	Statutory reserve	fluctuation reserve					
			HK\$'000	HK\$'000	HK\$'000	HK\$'000					
At 1 January 2010	46,676	204,037	3,036	-	-	98,532	220,075	45,470	617,826	4,528	622,354
Total income and expense for the period recognized											
directly in equity	-	-	-	(1,797)	-	5,125	-	-	3,328	305	3,633
Profit for the period	-	-	-	-	-	-	60,037	-	60,037	7,698	67,735
Total comprehensive income for the period	-	-	-	(1,797)	-	5,125	60,037	-	63,365	8,003	71,368
Final 2009 dividend declared and paid	-	-	-	-	-	-	(2,056)	(45,470)	(47,526)	-	(47,526)
Acquisition of a subsidiary	6,818	68,180	-	-	-	-	-	-	74,998	12,754	87,752
Acquisition of the non-controlling interest	2,419	49,581	-	-	-	-	4,528	-	56,528	(4,528)	52,000
Equity-settled share option expense	-	-	3,036	-	-	-	-	-	3,036	-	3,036
Proposed interim 2010 dividend	-	-	-	-	-	-	(8,962)	8,962	-	-	-
Balance as at 30 June 2010	55,913	321,798*	6,072*	(1,797)*	-	103,657*	273,622*	8,962	768,227	20,757	788,984

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six month ended 30 June 2011

	Attributable to equity holder of the parent										
	Issued share capital HK\$'000	Share premium account HK\$'000	Available-for-sale		Exchange		Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
Share option reserve HK\$'000			Share investment revaluation reserve HK\$'000	Statutory reserve HK\$'000	fluctuation reserve HK\$'000						
At 1 January 2011	63,788	533,732	17,523	(976)	2,426	121,263	283,003	57,409	1,078,168	22,261	1,100,429
Change in fair value of available-for-sale investment, net of tax	-	-	-	(8)	-	-	-	-	(8)	-	(8)
Exchange differences on transaction of foreign operation	-	-	-	-	-	12,737	-	-	12,737	991	13,728
Profit for the period	-	-	-	-	-	-	90,452	-	90,452	6,355	96,807
Total comprehensive income for the period	-	-	-	(8)	-	12,737	90,452	-	103,181	7,346	110,527
Final 2010 dividend declared and paid	1,547	48,998	-	-	-	-	-	(57,409)	(6,864)	-	(6,864)
Formation of Joint Venture*	-	-	-	-	-	-	-	-	-	10,406	10,406
Equity-settled share option expense	-	-	6,533	-	-	-	-	-	6,533	-	6,533
Issue of share – share option	2,620	27,704	(7,723)	-	-	-	-	-	22,601	-	22,601
Proposed interim 2010 dividend	-	-	-	-	-	-	(20,386)	20,386	-	-	-
Balance as at 30 June 2011	67,955	610,434*	16,333*	(984)*	2,426*	134,000*	353,069*	20,386	1,203,619	40,013	1,243,632

\* These reserve accounts comprises the consolidated reserves of HK\$1,115,278,000 (30 June 2010: HK\$703,352,000) in the condensed consolidated statement of financial position.

+ On 2 March 2011, Tianjin Nongken Dongfang Enterprise Company Limited and the subsidiaries of the Group set up a joint venture (“Joint Venture”) in Tianjin. The principal activity of the Joint Venture is manufacture and sales of furniture.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	<b>(32,757)</b>	15,836
Net cash outflow from investing activities	<b>(86,005)</b>	(53,007)
Net cash inflow from financing activities	<b>112,089</b>	39,297
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(6,673)</b>	2,126
Cash and cash equivalents at beginning of period	<b>238,199</b>	113,695
Effect of foreign exchange rate changes, net	<b>2,454</b>	5,430
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>233,980</b>	121,251
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>233,980</b>	121,251

# NOTES TO FINANCIAL STATEMENTS

30 June 2011

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010. Except for the changes in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Impact of new and revised HKFRSs and HKASs

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. While the adoption of the revised standard resulted in changes in the accounting policy, the revised standard does not have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

### Improvement to HKFRSs

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group has adopted the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has a significant financial impact on the Group. Those amendments that have a significant impact on the Group’s policies are as follows:

- (a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations which acquisition dates precede the application of HKFRS 3 (as revised in 2008).

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

### Improvement to HKFRSs *(Continued)*

(a) *(Continued)*

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their fair value on acquisition date, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

HKFRS 1 Amendment	<i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HK (IFRIC) — Int 14 Amendments	<i>Amendments to HK (IFRIC) — Int 14 Prepayments of a Minimum Funding Requirement</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues</i>

## **2. OPERATING SEGMENT INFORMATION**

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 business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. 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;

In determining the Group's geographical segments, revenues 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 2. OPERATING SEGMENT INFORMATION (Continued)

### (i) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the period ended 30 June 2011 and 2010.

Period ended 30 June 2011	Franchise operation HK\$'000	Self-operating shops HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue:				
Sales to external customers	613,121	99,070	-	712,191
Intersegment sales	150,091	-	(150,091)	-
<b>Total</b>	<b>763,212</b>	<b>99,070</b>	<b>(150,091)</b>	<b>712,191</b>
Segment results	96,075	13,762	-	109,837
Unallocated gains				9,839
Corporate and unallocated expenses				(14,380)
Finance costs				(2,772)
Share of profits of associates				1,363
Profit before tax				103,887
Tax				(7,078)
Profit for the period				96,809
Segment assets	1,294,540	128,595		1,423,135
Reconciliation:				
Elimination of intersegment receivables				(16,512)
Corporate and other unallocated assets				291,547
Total assets				1,698,170
Segment liabilities	183,830	112,345		296,175
Reconciliation:				
Elimination of intersegment payables				(16,512)
Corporate and other unallocated liabilities				174,875
Total liabilities				454,538

## 2. OPERATING SEGMENT INFORMATION (Continued)

### (i) Business segments

Period ended 30 June 2010	Franchise operation HK\$'000	Self-operating shops HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue:				
Sales to external customers	474,561	70,527	–	545,088
Intersegment sales	27,654	–	(27,654)	–
<b>Total</b>	<b>502,215</b>	<b>70,527</b>	<b>(27,654)</b>	<b>545,088</b>
Segment results	64,196	7,296	–	71,492
Unallocated gains				7,882
Corporate and unallocated expenses				(10,249)
Finance costs				(2,179)
Share of profits of associates				3,002
Profit before tax				69,948
Tax				(2,213)
Profit for the period				67,735
Segment assets	891,539	66,641		958,180
Reconciliation:				
Elimination of intersegment receivables				(27,654)
Corporate and other unallocated assets				203,178
Total assets				1,133,704
Segment liabilities	246,864	60,647		307,511
Reconciliation				
Elimination of intersegment payables				(27,654)
Corporate and other unallocated liabilities				64,863
Total liabilities				344,720



## 2. OPERATING SEGMENT INFORMATION (Continued)

### (ii) Geographical segment

The following table present revenue, for the Group's geographical segment for the six months ended 30 June 2011 and 2010.

	<b>Six months ended 30 June</b>	
	<b>2011</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2010 HK\$'000 (Unaudited)
Segment revenue		
Sales to the PRC	<b>702,412</b>	537,572
Sales to elsewhere in Asia	<b>7,551</b>	4,167
Sales to Europe	<b>527</b>	731
Sales to Middle East	<b>1,701</b>	2,618
	<b>712,191</b>	545,088

The revenue, expenses, profit, assets and liabilities and capital expenditures are principally located in the People's Republic of China (the "PRC").

## 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:

	<b>Six months ended 30 June</b>	
	<b>2011</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2010 HK\$'000 (Unaudited)
<b>Revenue</b>		
Sales of goods	<b>712,191</b>	545,088
<b>Other income and gains</b>		
Bank interest income	<b>186</b>	147
Others	<b>9,653</b>	7,735
	<b>9,839</b>	7,882
	<b>722,030</b>	552,970

#### 4. PROFIT BEFORE TAX

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

	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cost of goods sold	488,489	385,667
Depreciation of items of property, plant and equipment	25,960	25,906
Amortisation of intangible assets	481	450
Minimum lease payments under operating leases in respect of land and buildings	31,203	27,203
Bank interest income	(186)	(147)

#### 5. FINANCE COSTS

	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Interest on bank loan	2,772	2,179

#### 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	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Current – PRC corporate income tax	7,078	2,213
Total tax charge for the period	7,078	2,213

## **6. TAX (Continued)**

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.

According to the Income Tax Law of the PRC on enterprises with foreign investment and foreign enterprises, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), 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 in PRC corporate income tax for the following three years.

The current year income tax rate for Wanlibao, Simply and Fufa was 25% as it expired the beneficial period of seventh years. The tax rate for Yufa and Fuli was 12.5% as it was in its fourth beneficial year.

## **7. DIVIDENDS**

A dividend in respect of the six months ended 30 June 2011 of HK3.0 cents (2010: HK1.6 cents) per share, amounting to a total dividend of approximately HK\$20,386,000 was proposed by the Board on 15 August 2011. 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 for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 647,749,000 in issue as adjusted by the issuances of new shares in June 2011 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 parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise 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:

	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	<b>90,454</b>	60,037
	<b>Number of shares</b>	
	2011 (Unaudited)	2010 (Unaudited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>647,748,941</b>	540,657,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>31,196,563</b>	26,610,000
	<b>678,945,504</b>	567,267,000

## 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 end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	<b>30 June 2011 HK\$'000 (Unaudited)</b>	31 December 2010 HK\$'000 (Audited)
Within 30 days	<b>55,000</b>	28,037
31 days to 90 days	<b>13,164</b>	14,343
91 days to 180 days	<b>6,238</b>	6,797
Over 180 days	<b>4,948</b>	5,392
	<b>79,350</b>	54,569

## 10. TRADE PAYABLES

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

	<b>30 June 2011 HK\$'000 (Unaudited)</b>	31 December 2010 HK\$'000 (Audited)
Within 30 days	<b>60,819</b>	78,838
31 days to 90 days	<b>16,386</b>	21,241
91 days to 180 days	<b>352</b>	456
181 days to 360 days	<b>175</b>	227
Over 360 days	<b>899</b>	1,166
	<b>78,631</b>	101,928

## 11. BUSINESS COMBINATION

On 1 April 2011, the Group acquired a 100% interest in retail shops (“Retail Shops”) in Mainland China. The Retail Shops are engaged in the sales of the Group’s products. The purchase consideration for the acquisition was in the form of cash.

The fair values of the identifiable assets and liabilities of Retail Shops as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	<b>Fair value and carrying amount as at the acquisition date</b>
	HK\$’000 (Unaudited)
Property, plant and equipment	1,805
Cash and bank balances	755
Trade receivables	1,566
Prepayment and other receivables	5,248
Inventory	6,500
Trade payables	185
Accruals and other payables	4,689
<b>Total</b>	<b>11,000</b>
100% interest acquired by the Company	11,000
Goodwill on acquisition	58,890
Satisfied by cash	69,890

The cash outflow in respect of the acquisition of Retail Shops is HK\$69,135,000.

## 12. COMMITMENTS

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

	Group	
	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Approved, but not contracted for:		
The construction of land and buildings	150,000	150,000
The purchase of property, plant and machinery	50,000	50,000
	200,000	200,000

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

## COMPARATIVE AMOUNTS

During the current period, certain comparative amounts have been reclassified to confirm with the current period's presentation.

By Order of the Board

**Tse Kam Pang**

*Chairman*

Hong Kong, 15 August 2011