

Interim Report 2012



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*)
(*Chief Executive Officer appointed on 1 August 2012*)
- Mr. Chang Chu Fai J. Francis*
(*Vice Chairman appointed on 1 August 2012*)
- Mr. Ma Gary Ming Fai
(*Chief Executive Officer resigned on 1 August 2012*)
- Mr. Zeng Le Jin (*Chief Operating Officer*)
- Mr. Tse Wun Cheung
(*appointed on 15 June 2012*)
- Mr. Lam Toi

Independent Non-Executive Directors

- Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

AUDIT COMMITTEE

- Mr. Yue Man Yiu Matthew (*Chairman*)
Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Chang Chu Fai J. Francis
(*resigned on 1 August 2012*)

REMUNERATION COMMITTEE

- Mr. Lau Chi Kit
(*Chairman appointed on 1 August 2012*)
- Mr. Chang Chu Fai J. Francis
(*Chairman resigned on 1 August 2012*)
- Dr. Donald H. Straszheim
Mr. Yue Man Yiu Matthew

NOMINATION COMMITTEE

- Mr. Lau Chi Kit (*Chairman appointed on 1 August 2012*)
- Dr. Donald H. Straszheim
Mr. Yue Man Yiu Matthew
Mr. Chang Chu Fai J. Francis
(*resigned on 1 August 2012*)

COMPANY SECRETARY

- Ms. Chan Wei Fun, CPA

AUDITORS

- Ernst & Young

SOLICITORS

- DLA Piper Hong Kong

PRINCIPAL BANKER

- Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

* redesignated as executive director on 1 August 2012

CORPORATE INFORMATION *(Continued)*

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

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MANAGEMENT DISCUSSION AND ANALYSIS

- **Weakening Chinese economy and poor retail sentiment led to decreases of:**
 - turnover by 30.0%
 - gross profit by 32.6%
 - net profit by 89.0%
- **Implemented cost cutting measures and enhanced sales promotion campaigns**
- **Continued to upgrade and broaden product range by strategic acquisition and co-operation with European brands**

BUSINESS REVIEW

In July 2012, China's official PMI has fallen to a new low of 55.6 in three years. Coupled with the slowdown of the Chinese economy in six consecutive quarters, retail consumption in general is weak and demand for the Group's products has dampened accordingly.

For the six months period ended 30 June 2012, the Group's turnover recorded a significant decline of 30.0% at HK\$498.3 million (2011: HK\$712.2 million), as the Group was adversely affected by poor retail sentiment and the continuously restrictive housing policy of the Central Government. Gross profit dropped by 32.6% to HK\$150.8 million (2011: HK\$223.7 million), mainly due to the decline in sales and to a lesser extent, decrease in gross profit margin from 31.4% to 30.3%.

During the period under review, total selling and distribution expenses and administrative expenses stood at HK\$127.3 million which was maintained at a similar level as last year (2011: HK\$128.2 million). However, total selling and distribution expenses increased both in dollar terms and as a percentage of revenue to HK\$92.5 million (2011: HK\$80.8 million) and 18.6% (2011: 11.3%) respectively. Such increase was mainly caused by higher spending for promotion to boost sales amid weakening market conditions. Under normal circumstances, there is a time lag for these promotion efforts to produce results. On the other hand, administrative expenses decreased to HK\$34.8 million (2011: HK\$47.4 million) mainly as a result of the management's cost cutting measures. The finance costs during the period have increased to HK\$9.6 million (2011: HK\$2.8 million) due to further drawdown of the Group's loan facilities to finance construction of new production facilities and a head office complex (including a training and exhibition centre).

A combination of the factors mentioned above caused the Group's profit attributable to equity holders to decrease by 89.0% to HK\$9.9 million (2011: HK\$90.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Operational Review

During the period under review, the Group encountered a decline in sales in both its franchise stores and self-operating stores. While a number of franchise stores were closed, the predominant factor causing such a decline was negative same stores sales growth. Sales at the Group's self-operating stores also experienced a modest decline. However, such a decline was mainly attributed to the closure of some underperforming stores while same stores sales of this segment was relatively stable.

Promotion Campaign

In order to counter the declining sales, the Group enhanced sales promotion campaigns by increasing spending in advertisement support and sales incentives to the Group's dealers during the latter part of the period under review. To support potential higher sales volume from these promotion campaigns, the Group has maintained a higher level of inventory as at the end of the period. Even though such campaigns have not resulted in immediate enhanced profits, management is of the view that it was necessary in a weak market environment and is expected to yield benefits in the second half of 2012 and the first half of 2013. The inventory level is expected to gradually decrease in the second half of 2012 as the promotion campaigns start to have a positive impact on the Group's sales and the traditional peak season for the Group is the last quarter of the year.

Cost Cutting Measures

The Group has implemented a series of cost cutting programs to reduce its overhead costs and improve operating efficiency. Each department throughout the Group is required to rationalize its individual head counts to keep staff at a minimum. In addition, all of the Group's executive directors have elected to reduce their monthly salary by 50% with effect from 1 August 2012 until profitability has improved, as a demonstration of commitment to the cost cutting measures.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Acquisition and Expansion

Even amidst a weak market environment, the Group has continued to pursue acquisition opportunities to support strategic growth in new business segments. The Group acquired a Shenzhen furniture group supplying high-end European classic style solid wood furniture under its own brands. With this acquisition, the Group is able to penetrate this business segment in the furniture industry, therefore broadening its product offering. This acquisition is in line with the Group's overall strategy of enhancing its product range through increased collaboration with renowned European furniture brands seeking to penetrate China. In this regard, the Group is in discussions with established UK and Italian furniture companies to explore cooperation opportunities in China.

New Production Facilities

During the past two years, the Group has been planning for two new production facilities at Wuqing in Tianjin Municipality and at Nanchang in Jiangxi Province respectively. Phase I of the Tianjin facility is expected to commence operations by the fourth quarter of 2012. In light of the adverse market environment, the Group will scale back initial production at the Tianjin facility and postpone major expenditure at the Nanchang facility until market conditions in China improve.

Management Changes

During the period under review, the Group has appointed an executive director from its senior management team, Mr. Tse Wun Cheung ("Mr. Tse") who has served as head of the Group's department of procurement since 2005. Mr. Tse has successfully led some of the Group's challenging projects in the past, including sponsorship of the Universiade SHENZHEN 2011.

Subsequent to the period under review, the Group's Chief Executive Officer, Mr. Gary Ma Ming Fai ("Mr. Ma") has retired from his post in order to pursue his other personal interests. Mr. Ma will remain as a senior consultant of the Group. Mr. Ma's CEO responsibilities have been assumed by the Group's Chairman, Mr. Jackson Tse Kam Pang. Mr. Francis Chang Chu Fai, an independent non-executive director since 2005, has been appointed as an executive director and Vice Chairman of the Group, and will assist the Chairman as his deputy, in particular in the management of the Board's functions and formulating corporate strategy.

PROSPECTS

It is widely expected that the Central Government of China would take measures to stimulate economic growth, thereby leading to a recovery in the domestic property market. Such recovery is expected to boost demand for the Group's products; however, based on previous experience, the Group expects a lag period of between 12 to 18 months.

The Group believes that the cost cutting measures and sales promotion campaigns implemented during the period under review positions it well to capture growth in the furniture industry as the macro-economic environment improves. The Group expects the operating environment in the second half of 2012 would remain difficult. However, barring unforeseen circumstances, some improvement in its operating performance in the second half of 2012 could be anticipated as, among other things, traditionally the Group's sales in the second half of the year are higher than the first half due to seasonal factors.

Despite the present difficult operating environment, the Group is optimistic over the long-term prospects of the furniture industry in China. The Chinese Government is expected to continue its urbanization policy, hence ensuring steady migration of millions of households from the rural areas into townships or third/fourth-tier cities. This presents continuous demand for housing units, and thus furniture. The affordable housing provided by the Chinese Government totaling 10 million units for delivery in the second half of 2012 should in general also have a positive impact on the demand of furniture products as these new home owners prepare moving into their new homes. The Group will continue to collaborate proactively with potential franchisees, as well as seek to expand its self-operating store network at strategic locations. In addition, the Group will continue to explore cooperation opportunities with renowned European furniture brands in China to upgrade and expand its product range.

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

As at 30 June 2012, 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 ¹	Aggregate percentage of interest as at 30 June 2012 ²
Tse Kam Pang	Long position	292,649,874 ³	–	38.05%
Chang Chu Fai Johnson, Franics	Long position	–	843,750	0.10%
Zeng Le Jin	Long position	2,556,000	2,925,000	0.71%
Tse Wun Cheung	Long position	5,328,173	4,000,000	1.36%
Ma Gary Ming Fai	Long position	15,851,962 ⁴	5,175,000	2.73%
Donald H. Straszheim	Long position	–	1,125,000	0.15%
Lau Chi Kit	Long position	–	1,125,000	0.15%
Yue Man Yiu Matthew	Long position	–	1,125,000	0.15%

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 2012.
3. Of these 292,649,874 shares, 28,910,513 shares were held by Mr. Tse Kam Pang personally, 123,893,413 shares and 139,845,948 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 292,649,874 shares held by these companies.
4. Of these 21,026,962 shares, 15,312,654 shares were held by Mr. Ma Gary Ming Fai personally, 3,034,125 shares were held by Upwise Investments Limited, and 2,680,183 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 3,034,125 shares held by Upwise Investments Limited. Ms Hung Fung King Margaret is Mr. Ma Gary Ming Fai's wife.

On 31 July 2012, Mr. Ma Gary Ming Fai has resigned as the Executive Director and Chief Executive Officer with effect from 1 August 2012 for pursuing other business.

Save as disclosed above, as at 30 June 2012, 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 2012, 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 2012 ¹
Crisana International Inc.	Directly beneficially owned	123,893,413 ²	16.11%
Charming Future Holdings Limited	Directly beneficially owned	139,845,948 ³	18.18%
Identical Development Limited	Directly beneficially owned	47,289,309 ⁴	6.15%
Value Partners Limited	Directly beneficially owned	61,353,165 ⁵	7.98%

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 2012.
2. These 123,893,413 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 123,893,413 Shares held by Crisana International Inc. In addition, Mr. Tse Kam Pang personally held 28,910,513 Shares.
3. These 139,845,948 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 139,845,948 Shares held by Charming Future Holdings Limited. In addition, Mr. Tse Kam Pang personally held 28,910,513 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 47,289,309 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 47,289,309 Shares held by Identical Development Limited.
5. These 61,353,165 shares were held by Value Partners Limited in its capacity as an investment manager. 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 2012, 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\$261.4 million as at 30 June 2012 (31 December 2011: HK\$304.1 million).

As at 30 June 2012, the Group had interest bearing bank loans total to HK\$674.1 million (31 December 2011: HK\$413.8 million) and no contingent liabilities. As at the same date, the net debt divided by capital plus net debt of the Group was 29% (31 December 2011: 10%).

As at 30 June 2012, approximately 92.0% of the Group's cash was denominated in Renminbi. The exposure to the exchange fluctuation was minimal.

As at 30 June 2012, the current ratio (current assets/current liabilities) was 1.51 times (31 December 2011: 1.84) and the net current assets was HK\$303.0 million (31 December 2011: HK\$384.1 million).

As at 30 June 2012, the Company has fully complied with the facility agreement relating to a HK\$400,000,000 term loan facility for a term of three years commencing from 20 October 2011. Mr. Tse Kam Pang owned approximately 38.05% of the issued share capital of the Company.

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2012 was approximately 3,408 (2011: 4,412). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, 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.

In compliance with Code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Nonetheless, the Company has appointed Mr. Tse Kam Pang as both its chairman and chief executive officer, following the departure of the ex-CEO. The Board believes that vesting the roles of the chairman and the chief executive in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board has also appointed Mr. Zeng Le Jin as chief operating officer and Mr. Francis Chang Chu Fai, as vice chairman, and believes that the balance of power and authority is adequately ensured by the operation of the Board, which comprises experienced and technical individuals with a sufficient number thereof being independent non-executive directors.

In compliance with Code provision E.1.3 of the CG Code, save as the annual general meeting held on 18 May 2012, which notification was announced by the Board on 20 April 2012 in accordance with the Articles of Association of the Company due to the tight schedule of considering and approving the consolidated final results of the Company for the year ended 31 December 2011 and considering the payment of final dividends and bonus issues of shares, at least 21 clear days' notice had been given to the Shareholders.

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”).

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 2012.

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 2012.

RESULTS

The Board of Directors (the “Board”) of Royale Furniture Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011. 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 2012

	Notes	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
REVENUE	4	498,290	712,191
Cost of sales		(347,520)	(488,489)
Gross profit		150,770	223,702
Other income and gains	4	571	9,839
Selling and distribution costs		(92,537)	(80,810)
Administrative expenses		(34,779)	(47,435)
Finance costs	6	(9,640)	(2,772)
Share of profits of associates		1,156	1,363
PROFIT BEFORE TAX	5	15,541	103,887
Tax	7	(2,398)	(7,078)
PROFIT FOR THE PERIOD		13,143	96,809

CONDENSED CONSOLIDATED INCOME STATEMENT *(Continued)*

For the six months ended 30 June 2012

	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
ATTRIBUTABLE TO:		
OWNERS OF THE COMPANY	9,907	90,454
NON-CONTROLLING INTEREST	3,236	6,355
	13,143	96,809
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD		
Basic	1.43 cents	12.41 cents (restated)
Diluted	1.41 cents	11.84 cents (restated)

Details of the dividends payable and proposed for the period are disclosed in note 8 to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Profit for the period	13,143	96,809
Other comprehensive income for the period		
Exchange difference arising from translation of foreign operations	(5,706)	13,728
Available-for-sale assets:		
Changes in fair value	731	(8)
Total comprehensive income for the period	8,168	110,529
Attributable to:		
Owners of the Company	4,932	103,183
Non-controlling interest	3,236	7,346
	8,168	110,529

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,181,706	1,120,640
Prepaid land lease payments		161,218	144,376
Goodwill		190,093	123,137
Intangible assets		1,927	2,344
Interest in associates		57,972	56,816
Available-for-sales investments		6,753	6,022
Total non-current assets		1,599,669	1,453,335
CURRENT ASSETS			
Inventories		347,339	255,293
Trade receivables	10	79,251	76,804
Prepayments, deposits and other receivables		185,729	186,799
Pledged deposits		20,000	20,000
Cash and cash equivalents		261,381	304,135
Total current assets		893,700	843,031
CURRENT LIABILITIES			
Trade payables	11	65,075	88,075
Other payables and accruals		115,190	124,539
Interest-bearing bank loans		310,841	149,054
Tax payable		99,617	97,219
Total current liabilities		590,723	458,887
NET CURRENT ASSETS		302,977	384,144
TOTAL ASSETS LESS CURRENT LIABILITIES		1,902,646	1,837,479

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

30 June 2012

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	363,213	264,700
Deferred tax liabilities	34,377	34,377
Total non-current liabilities	397,590	299,077
Net assets	1,505,056	1,538,402
EQUITY		
Equity attributable to owners of the Company		
Issued capital	76,907	68,232
Reserves	1,330,837	1,328,480
Proposed dividend	-	54,610
	1,407,744	1,451,322
Non-controlling interests	97,312	87,080
Total equity	1,505,056	1,538,402

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month ended 30 June 2012

	Attributable to owners of the Company										
	Issued share capital	Share premium account	Available- for-sale		Exchange		Retained profits	Proposed dividend	Total	Non- controlling interests	Total equity
			Share investment option reserve	Share investment revaluation reserve	Statutory reserve	fluctuation reserve					
			HK\$'000	HK\$'000	HK\$'000	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
Other comprehensive income for the period:											
Change in fair value of available-for-sale investment, net of tax	-	-	-	(8)	-	-	-	-	(8)	-	(8)
Exchange differences on transaction of foreign operation	-	-	-	-	-	12,735	-	-	12,735	991	13,726
Profit for the period	-	-	-	-	-	-	90,454	-	90,454	6,355	96,809
Total comprehensive income for the period	-	-	-	(8)	-	12,735	90,454	-	103,181	7,346	110,527
Final 2010 dividend declared and paid	1,547	48,998	-	-	-	-	-	(57,409)	(6,864)	-	(6,864)
Capital injection in a new subsidiary	-	-	-	-	-	-	-	-	-	10,406	10,406
Equity-settled share option expense	-	-	6,533	-	-	-	-	-	6,533	-	6,533
Share option exercised	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	133,998	353,071	20,386	1,203,619	40,013	1,243,632

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six month ended 30 June 2012

	Attributable to owners of the Company											
	Issued share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset valuation reserve HK\$'000	Available- for-sale investment revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2012	68,232	614,940*	21,543*	100,637*	(2,410)*	4,291*	155,180*	434,299*	54,610	1,451,322	87,080	1,538,402
Profit for the period	-	-	-	-	-	-	-	9,907	-	9,907	3,236	13,143
Other comprehensive income for the period:												
Change in fair value of available-for-sale investment, net of tax	-	-	-	-	731	-	-	-	-	731	-	731
Exchange differences on transaction of foreign operation	-	-	-	-	-	-	(5,706)	-	-	(5,706)	-	(5,706)
Total comprehensive income for the period	-	-	-	-	731	-	(5,706)	9,907	-	4,932	3,236	8,168
Final 2011 dividend declared	-	-	-	-	-	-	-	(79)	(54,610)	(54,689)	-	(54,689)
Bonus issues	8,545	-	-	-	-	-	-	(8,545)	-	-	-	-
Acquisition of a subsidiary (note 12)	-	-	-	-	-	-	-	-	-	-	6,996	6,996
Equity settled share option expense	-	-	5,503	-	-	-	-	-	-	5,503	-	5,503
Share options exercised	130	780	(234)	-	-	-	-	-	-	676	-	676
At 30 June 2012	76,907	615,720*	26,812*	100,637*	(1,679)*	4,291*	149,474*	435,582*	-	1,407,744	97,312	1,505,056

* There reserve accounts comprises the consolidated reserves of HK\$1,330,837,000 (31 December 2011: HK\$1,328,480,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Net cash outflow from operating activities	(131,990)	(32,757)
Net cash outflow from investing activities	(110,160)	(86,005)
Net cash inflow from financing activities	195,970	112,089
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,180)	(6,673)
Cash and cash equivalents at beginning of period	304,135	238,199
Effect of foreign exchange rate changes, net	3,426	2,454
CASH AND CASH EQUIVALENTS AT END OF PERIOD	261,381	233,980
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	261,381	233,980

NOTES TO FINANCIAL STATEMENTS

30 June 2012

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the above new standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

For management purpose, the management does not review the performance of the business in franchise operation and self-operating stores separately, but consider there is only one segment which is manufacture and sales of home furniture. Such changes have been restated for comparative amounts in prior years. All of the group's products are of a similar nature and subject to similar risk.

Information about a major customer

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the period (30 June 2011: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	498,290	712,191
Other income and gains		
Bank interest income	251	186
Others	320	9,653
	571	9,839
	498,861	722,030

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of goods sold	347,520	488,489
Depreciation of items of property, plant and equipment	31,767	25,960
Amortisation of intangible assets	485	481
Minimum lease payments under operating leases in respect of land and buildings	35,920	31,203
Bank interest income	(251)	(186)

6. FINANCE COSTS

	2012	
	HK\$'000	2011
	(Unaudited)	HK\$'000
		(Unaudited)
Interest on bank loans	9,640	2,772

7. 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	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – PRC corporate income tax	2,398	7,078
Total tax charge for the period	2,398	7,078

7. TAX (Continued)

Under Decree – Law no. 58/99/M, companies in Macau incorporated under that Decree – Law (referred to as the “58/99/M Companies”) are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. Sinofull Macau Commercial Offshore Limited (“Sino Full”), a subsidiary of the Group, is qualified as a 58/99/M company.

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%. The tax rate for Yufa and Fuli was 12.5% as they were in their fifth profit-making year.

8. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Proposed interim – Nil (2011: HK3.0 cents) per ordinary share	–	20,386

The directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2012.

9. 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 695,191,242 in issue as adjusted to reflect the bonus issue of shares in June 2012 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.

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

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	9,907	90,454

	Number of shares	
	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
		(restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	695,191,242	728,717,559
Effect of dilution – weighted average number of ordinary shares:		
Share options	8,230,948	35,096,133
	703,422,190	763,813,692

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 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.

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 30 days	36,639	35,507
31 days to 90 days	21,275	17,711
91 days to 180 days	19,231	21,545
Over 180 days	2,106	2,041
	79,251	76,804

11. TRADE PAYABLES

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 30 days	35,182	51,677
31 days to 90 days	21,363	28,914
91 days to 180 days	6,913	5,296
181 days to 360 days	1,061	1,436
Over 360 days	556	752
	65,075	88,075

12. BUSINESS COMBINATION

On 4 June 2012, the Group acquired a 65% equity interest of Shenzhen Bokaimai Furniture Company Limited, a furniture company in Mainland China ("Bokaimai"). Bokaimai is engaged in the design, manufacturing and distributing solid wood furniture products in European style through its own sales network in China. The purchase consideration for the acquisition was in the form of cash. As at 30 June 2012, the Group has paid cash consideration of HK\$24.0 million to the vendor.

The fair values of the identifiable assets and liabilities of Bokaimai as at the date of acquisition were as follows:

	Fair value recognised on acquisition date
	HK\$'000 (Unaudited)
Property, plant and equipment	3,293
Cash and bank balances	27
Trade receivables	386
Prepayment and other receivables	3,647
Inventory	18,414
Trade payables	(2,151)
Accruals and other payables	(3,626)
Total identifiable net assets at fair value	19,990
Non-controlling interest in Bokaimai	(6,996)
Goodwill on acquisition	66,956
Satisfied by cash	79,950

The cash outflow in respect of the acquisition of Bokaimai is HK\$79,923,000.

13. COMMITMENTS

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

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Approved, but not contracted for:		
The construction of land and buildings	118,000	234,441
The purchase of property, plant and machinery	95,000	61,695
	213,000	296,136

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, 31 August 2012