ROYALE FURNITURE HOLDINGS LIMITED
皇朝傢俬控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1198)

ANNUAL RESULTS
For the year ended 31 December 2012

RESULTS

The Board of Directors (the "Board") of Royale Furniture Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the comparative audited figures for the year ended 31 December 2011. The annual results for the year ended 31 December 2012 have been reviewed by the Company's audit committee.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
REVENUE	4	**1,063,736**	1,547,318
Cost of sales		**(753,375)**	(1,060,671)
Gross profit		**310,361**	486,647
Other income	4	**14,910**	10,404
Selling and distribution expenses		**(180,850)**	(155,739)
Administrative expenses		**(96,771)**	(83,270)
Finance costs	6	**(18,764)**	(7,405)
Share of profits of associates		**5,023**	5,216
PROFIT BEFORE TAX	5	**33,909**	255,853
Income tax expense	7	**(8,895)**	(21,537)
PROFIT FOR THE YEAR		**25,014**	234,316
Attributable to:			
Owners of the Company		**21,629**	228,241
Non-controlling interests		**3,385**	6,075
		25,014	234,316
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		(restated)
Basic		**2.46 cents**	27.17 cents
Diluted		**2.44 cents**	26.34 cents

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 *HK$'000*	2011 *HK$'000*
PROFIT FOR THE YEAR	**25,014**	234,316
OTHER COMPREHENSIVE INCOME		
Gain on property revaluation	**45,981**	134,183
Income tax effect	**(8,556)**	(33,546)
	37,425	100,637
Changes in fair value of available-for-sale investments, net of tax	**2,115**	(1,434)
Exchange differences on translation of foreign operations	**10,030**	35,181
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**49,570**	134,384
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**74,584**	368,700
Attributable to:		
Owners of the Company	**70,350**	361,361
Non-controlling interests	**4,234**	7,339
	74,584	368,700

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,285,522**	1,120,640
Prepaid land lease payments		**211,862**	144,376
Goodwill		**190,868**	123,137
Intangible assets		**1,397**	2,344
Investments in associates		**53,370**	56,816
Available-for-sale investments		**8,137**	6,022
Total non-current assets		**1,751,156**	1,453,335
CURRENT ASSETS			
Inventories		**322,407**	255,293
Trade receivables	*10*	**91,683**	76,804
Prepayments, deposits and other receivables		**184,658**	186,799
Pledged deposits		**20,000**	20,000
Cash and cash equivalents		**408,471**	304,135
Total current assets		**1,027,219**	843,031
CURRENT LIABILITIES			
Trade payables	*11*	**76,791**	88,075
Other payables and accruals		**196,027**	124,539
Interest-bearing bank loans		**338,445**	149,054
Tax payable		**105,190**	97,219
Total current liabilities		**716,453**	458,887
NET CURRENT ASSETS		**310,766**	384,144
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,061,922**	1,837,479
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**244,457**	264,700
Deferred tax liabilities		**41,385**	34,377
Total non-current liabilities		**285,842**	299,077
Net assets		**1,776,080**	1,538,402
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**116,138**	68,232
Reserves		**1,538,658**	1,328,480
Proposed final dividend		**6,388**	54,610
		1,661,184	1,451,322
Non-controlling interests		**114,896**	87,080
Total equity		**1,776,080**	1,538,402

1. CORPORATE INFORMATION

Royale Furniture Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, the Cayman Islands.

The principal activity of the Company is investment holding. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the immediate and ultimate holding companies of the Group are Crisana International Inc. and Charming Future Holding Limited, which were incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except available-for-sale investments and the buildings classified as property, plant and equipment, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

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

The adoption of the revised HKFRSs had no significant financial effect on these financial statement.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single operating segment.

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2011: Nil).

4. REVENUE AND OTHER INCOME

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 is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**1,063,736**	1,547,318
Other income and gains		
Bank interest income	**1,092**	782
Other interest income	**3,258**	2,147
Sales of scraps	**10,560**	7,475
	14,910	10,404

5. PROFIT BEFORE TAX

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

	2012 *HK$'000*	2011 *HK$'000* (Restated)
Cost of inventories sold	**753,375**	1,057,328
Depreciation of items of property, plant and equipment	**61,561**	57,727
Recognition of prepaid land lease payments	**4,994**	2,616
Amortisation of intangible assets*	**974**	966
Loss on disposal of items of property, plant and equipment	**2,088**	1,829
Research and development costs*	**8,633**	11,859
Minimum lease payments under operating leases:		
Land and buildings	**79,155**	56,169
Auditors' remuneration	**1,980**	1,980
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**184,184**	164,284
Equity-settled share option expense	**7,246**	12,939
Expenses recognised for cancellation of share options	**747**	—
Pension scheme contributions	**11,989**	8,221
	204,166	185,444
(Reversal of impairment)/impairment of trade receivables *(note 10)*	**(385)**	2,951
Write-down of inventories to net realisable value	**—**	3,343

* The amortisation of intangible assets and research and development costs for the year have been included in "Administrative expenses" on the face of the consolidated income statement.

6. FINANCE COSTS

	Group 2012 *HK$'000*	 2011 *HK$'000*
Interest on bank loans:		
Wholly repayable within five years	**18,426**	6,895
Wholly repayable over five years	**338**	510
	18,764	7,405

7. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2012	2011
	HK$'000	*HK$'000*
Current — PRC corporate income tax	**10,443**	21,555
Deferred	**(1,548)**	(18)
	8,895	21,537

8. DIVIDENDS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Interim — Nil (2011: HK3.00 cents) per ordinary share	**—**	20,470
Proposed final — HK0.55 cents (2011: HK8.00 cents) per ordinary share	**6,388**	54,610
	6,388	75,080

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 879,315,208 (2011 (restated): 840,051,821) in issue during the year, as adjusted to reflect the bonus issue and the bonus element inherent in the open offer during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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 of all dilutive potential ordinary shares into ordinary shares.

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

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**21,629**	228,241

	Number of shares	
	2012	2011
		(restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**879,315,208**	840,051,821
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,349,614**	26,470,945
	887,664,822	866,522,766

10. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**103,786**	89,191
Impairment	**(12,103)**	(12,387)
	91,683	76,804

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 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balance. 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 provision, is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**77,454**	35,507
31 to 90 days	**11,240**	17,711
91 to 180 days	**2,989**	21,545
Over 180 days	**—**	2,041
	91,683	76,804

The movement in the provision for impairment of trade receivables is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**12,387**	9,242
Impairment losses (reversed)/recognised *(note 5)*	**(385)**	2,951
Write off	**—**	(257)
Exchange realignment	**101**	451
At 31 December	**12,103**	12,387

An aged analysis of the trade receivables that are not individually or collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**88,694**	53,218
One to three months past due	**2,989**	21,545
Over three months past due	**—**	2,041
	91,683	76,804

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

11. TRADE PAYABLES

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**40,490**	51,677
31 to 90 days	**33,596**	28,914
91 to 180 days	**596**	5,296
181 to 360 days	**1,483**	1,436
Over 360 days	**626**	752
	76,791	88,075

The trade payables are non-interest-bearing and are normally settled on 60-day to 90-day terms.

12. BUSINESS COMBINATIONS

On 4 June 2012, the Group acquired a 65% equity interest of Shenzhen Bokaimai Furniture Company Limited ("Bokaimai"), a furniture company in Mainland China. Bokaimai is engaged in designing, 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. 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
	HK$'000
Property, plant and equipment	3,331
Cash and bank balances	390
Trade receivables and other receivables	3,689
Inventories	18,622
Trade payables	(2,175)
Accruals and other payables	(3,667)
Total identifiable net assets at fair value	20,190
Non-controlling interests	(7,067)
Goodwill on acquisition	67,731
Satisfied by cash	80,854

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Bokaimai is as follows:

	HK$'000
Cash consideration	(80,854)
Cash and bank balances acquired	390
Net outflow of cash and cash equivalents included in cash flows from investing activities	(80,464)

Since the acquisition, Bokaimai contributed HK$35,270,000 to the Group's turnover and HK$5,197,000 to the consolidated profit for the year ended 31 December 2012.

13. COMMITMENTS

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Land and buildings	**128,573**	234,441
Plant and machinery	**98,712**	61,695
	227,285	296,136

At the end of the reporting period, the Group had no significant contingent liabilities.

14. CONTINGENT LIABILITIES

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

Company	**2012**	2011
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**150,000**	—

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company amounted to HK$374,000,000, which were utilised to the extent of approximately HK$150,000,000. The carrying amount of the financial guarantee contracts recognised in the Company's statement of financial position in accordance with HKAS 39 and HKFRS 4 was HK$4,473,000. The financial guarnatee contracts were eliminated on consolidation.

15. EVENTS AFTER THE REPORTING PERIOD

On 2 January 2013, a total of 38,600,000 share options were granted to individuals in respect of their services to the Group in the forthcoming years. The closing price of the Company's shares at the date of grant was HK$0.79 per share. These share options shall have a validity period of 10 years from 2 January 2013 to 1 January 2023, both dates inclusive. 50% of the share options shall be vested on the date falling the first anniversary of the date of grant and exercisable from 2 January 2014 to 1 January 2023. The remaining 50% of the share options shall be vested on the date falling the second anniversary of the date of grant and exercisable from 2 January 2015 to 1 January 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board has resolved to recommend a final dividend for the year ended 31 December 2012 in cash form equivalent to HK0.55 cents per share to the shareholders whose names appear on the register of members of the Company on 29 May 2013. No interim dividend was declared in 2012 (2011: HK3.00 cents). The dividend for the year ended 31 December 2012 is HK0.55 cents per share (2011: HK11.00 cents), representing a decrease of 95.0% from 2011.

Closure of the Register of Members

The Register of Members of the Company will be closed from 16 May 2013 to 20 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on 20 May 2013, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 15 May 2013.

In addition, the Register of Members of the Company will be closed from 24 May 2013 to 29 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 May 2013.

Financial Review

After three consecutive years of profit growth from 2009 to 2011, 2012 was a very difficult year for the Group amid poor consumer sentiment across China and restrictive measures imposed by the Central Government on the China property markets.

For the year under review, the Group's revenue decreased by 31.3% to HK$1,063.7 million (2011: HK$1,547.3 million). Both of the Group's wholesale and retail segments recorded a decline in sales. Our gross profit dropped 36.2% to HK$310.4 million (2011: HK$486.6 million) with a lower gross profit margin which decreased 2.3% to 29.2% from 31.5% in 2011. Such a decline in the gross profit margin is mainly attributed to the sales incentives and discounts that the Group provided to its wholesale and retail customers in order to boost sales while the major factor of the cost of sales, raw material was relatively stable.

During the year under review, total selling and distribution expenses increased by HK$25.1 million to HK$180.9 million. Such an increase is mainly caused by higher spending for promotion to boost sales due to weak market conditions. The administrative expenses of the Group has increased by HK$13.5 million to HK$96.8 million. The increase is mainly attributed to consolidating Bokaimai's administrative expenses after acquisition. Excluding the Bokaimai factor and appreciation of Renminbi, the Group's administrative expenses registered a modest increase. The finance cost increased by HK$11.4 million to HK$18.8 million corresponding with the higher average outstanding bank loan balance during the year. Overall, the net profit of the Group has decreased 90.5% to HK$21.6 million (2011: HK$228.2 million).

BUSINESS REVIEW

Sales Management

During the year, the Group generated 81.2% and 18.8% of our sales from our franchisee stores and self operating stores respectively. Although our sales from both segments have declined significantly, our self operating stores declined relatively less due to a stronger than normal discount promotional policy on our own stores to boost sales. The Group also provided incentives for its franchisee stores to combat their declining sales. These incentives included sales volume discounts and sales promotional supports via intensified advertising programs. The Group also took a critical review of its sales network and decided to close a number of stores which were considered to be non-performing. Such closure of stores covered both self operating and franchisee stores mostly in the upper tier cities.

Brand Management

Despite the poor market environment, the Group continues to invest in upgrading its brand during the year. As we have positioned our products at the middle to high end price range segments, brand image is important to the Group. Our branding exercises in the past decade, amongst others, included the sponsorships of Beijing Olympics in 2008 and Shenzhen Universiade Game in 2011 and the appointment of renowned movie stars as our spokespersons. In order to refresh our brand image, the Group has appointed a very popular celebrity model in the Greater China region, Miss Lin Chiling (林志玲) as the new spokesperson for our brand.

Product Development and Management

Self-Developed Product Series: During the year, the Group launched one new product series called "森林物語" Senlin Wuyu which are made of hardwood with a rustic finishing touch. In addition we have redesigned and upgraded the "Light Walnut", our best selling product series within the Group for many years.

Acquisition of Bokaimai: In 2012 the Group acquired a Shenzhen furniture group supplying high-end European classic style solid wood furniture under its own brands. The Bokaimai division currently produces two product series: Jocci and L'amour Rose. The former is a formal looking classical style furniture in darker wood colors while the latter is a modern looking classical style furniture in light beige color. The acquisition of Bokaimai allows the Group to scale up its design and production capabilities in high-end Western style hardwood furniture of sizable scale.

Premium Import Brands: During the year, the Group has signed up as the exclusive distributor of Duresta of the U.K., who designs and produces hand-made sofas that are often sold to palaces of monarchs, governments and celebrities. This is in addition to the premium brand of Treci signed up in 2011. With the fast growing number of very wealthy households in China, the Group is of the view that there is a sizable demand for luxury furniture imported from Europe. Thus, the Group has positioned itself to be the trust worthy distributor of such premium European brands meeting the growing demands of a distinct group of wealthy customers in China.

Human Resource Management

During the year, the Group has streamlined the head counts of its various departments. In addition from August onward, all of the Group's executive directors have elected to reduce their monthly salary by 50% until profitability has improved. Nevertheless, to complement our strategy in distributing the premium import brands, the Group has recruited a team of staff from China, Hong Kong and Singapore to cater for penetration into this luxury market segment.

New Production Facilities

The Group has new production facilities in Tianjin and Nanchang of the Jiangxi Province under planning. Our Tianjin plant being a joint venture with a local partner which takes up a minority equity stake of 45% in the new factory plant located at the Wuqing District of Tianjin occupying 400 mu of land is scheduled to commence trial production by the third quarter of 2013. This Tianjin plant is expected to focus more on the production of bulky products such as sofas. The Nanchang plant is currently at the land leveling stage and major capital expenditure will be deferred until the market conditions improve.

Liquidity and Financial Resources

The Group maintained a cash and cash equivalents amounted to HK$408.5 million as at 31 December 2012 (2011: HK$304.1 million). Although the Group's expansion plan was partially financed by cash flow from operating activities, it has raised HK$190.0 million through an open offer of new shares.

As at 31 December 2012, except for the interest bearing loans amounted to HK$582.9 million (2011: HK$413.7 million), the Group has no other bank borrowings and contingent liabilities. As at the year end, the net debt divided by capital plus net debt of the Group was 21.2% (2011: 18.2%). Approximately, 48.4% of the Group's cash was denominated in Renminbi with the remaining balance denominated in Hong Kong Dollars. The exposure to currency exchange rate fluctuation has been minimal since both of our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2012, the liquidity of the Group was slightly reduced as its current ratio (current assets to current liabilities) has slightly decreased to 1.43 (2011: 1.84) and the net current asset has increased to HK$310.8 million (2011: HK$384.1 million).

Prospects

2013 is a year full of uncertainties. Firstly, the widely expected new stimulus package to be introduced by the Chinese government has not materialized. Secondly, while there are signs of recovery in the Chinese property market since mid 2012, the Central Government under the new leadership has announced a new round of restrictive policies on the property sector, which has created uncertainty on whether the recovery of the Chinese property market can be sustained.

On the other hand, it is encouraging to note that the new leadership has committed to continuous urbanization of China which means increasing demand for housing units, and hence furniture. This confirms the Group has adopted the right strategy to expand into the townships or third/fourth-tier cities a few years ago. The Group is well placed to capture growth opportunities arising from China's urbanization with its panel-wood product series.

In the major cities, there is a fast growing affluent middle class which has the spending power and aspiration to improve their living standards. We believe the premium furniture segment is growing rapidly, especially, the high end imported furniture. In this regard, we have positioned ourselves to capture growth opportunities in this high end market segment through exclusive distributorships of import brands and establishing a new team to cater for development of this market segment.

We will continue to improve the point-of-sales efficiency through upgrading store image, training and streamlining our retail network. We anticipate 2013 would remain a difficult year. However, barring unforeseen circumstances, we are cautiously optimistic on the outlook of 2013 when compared with 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the former and revised 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 year.

Saved as disclosed below, the Board considers the Company has complied with the code provisions as set out in the CG Code.

Code Provision A.2.1

Under code provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Kam Pang, who acts as the chairman and chief executive officer of the Company, is responsible in pioneering the Company's business model and undertaking the main decision-making role in the management of the Company's overall operations and overseeing the strategic development of the Group. The Board will meet regularly to consider and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that the sufficient measures have been taken and it will not impair the balance of power and authority between the Board and the management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted for compliance by the directors and relevant employees 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 ("Model Code"), of the Listing Rules. The Company, having made specific enquiry, confirms that members of the Board complied throughout the year with the Model Code.

The Audit Committee has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written term of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has also held meeting with the Group's external auditors without the presence of executive directors and management of the Group, to discuss matters arising from the auditing and report to the Board of material issues, if any, and make recommendations to the Board. The Audit Committee consists of three independent non-executive Directors namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr. Lau Chi Kit. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2012.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year under review.

The annual results announcement is published on the website of the Company and the Stock Exchange (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2012 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and make available on the abovementioned websites in due course.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 28 March 2013

As at the date of this announcement, the Board comprises five Executive Directors, namely, Mr. Tse Kam Pang, Mr. Chang Chu Fai Johnson Francis, Mr. Zeng Lejin, Mr. Lam Toi and Mr. Tse Wun Cheung; and three Independent Non-Executive Directors, namely, Dr. Donald H. Straszheim, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew.