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ROYALE FURNITURE HOLDINGS LIMITED

皇朝傢俬控股有限公司*

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1198)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

RESULTS

The Board of Directors of Royale Furniture Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

** For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
REVENUE	3	545,088	354,515
Cost of sales		<u>(385,667)</u>	<u>(242,046)</u>
Gross profit		159,421	112,469
Other income and gains	3	7,882	2,032
Selling and distribution costs		(60,360)	(54,885)
Administrative expenses		(37,818)	(35,425)
Finance costs	5	(2,179)	(343)
Share of profits of associates		<u>3,002</u>	<u>229</u>
PROFIT BEFORE TAX	4	69,948	24,077
Tax	6	<u>(2,213)</u>	<u>(1,151)</u>
PROFIT FOR THE PERIOD		<u>67,735</u>	<u>22,926</u>
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT		60,037	21,893
MINORITY INTEREST		<u>7,698</u>	<u>1,033</u>
		<u>67,735</u>	<u>22,926</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT DURING THE PERIOD			
Basic		<u>11.1 cents</u>	<u>4.9 cents</u>
Diluted		<u>10.6 cents</u>	<u>N/A</u>

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

	For the six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period	67,735	22,926
Other comprehensive income for the period		
Exchange difference arising from translation of foreign operations	5,430	(666)
Available-for-sale assets:		
Changes in fair value	(1,797)	—
Total comprehensive income for the period	<u>71,368</u>	<u>22,260</u>
Attributable to		
Owners of the parents	63,365	21,227
Minority interests	8,003	1,033
	<u>71,368</u>	<u>22,260</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		405,748	386,200
Prepaid land lease payments		67,809	38,289
Goodwill		63,567	—
Intangible assets		3,522	3,972
Interest in associates		49,461	46,458
Available-for-sales investments		6,635	8,432
Total non-current assets		596,742	483,351
CURRENT ASSETS			
Inventories		206,009	118,844
Trade receivables	9	29,541	29,950
Prepayments, deposits and other receivables		180,161	112,255
Derivative financial instruments		—	14,000
Cash and cash equivalents		121,251	113,695
Total current assets		536,962	388,744
CURRENT LIABILITIES			
Trade payables	10	77,101	72,921
Other payables and accruals		86,342	84,657
Interest-bearing bank loans		87,607	1,498
Tax payable		68,354	66,064
Total current liabilities		319,404	225,140
NET CURRENT ASSETS		217,558	163,604
TOTAL ASSETS LESS CURRENT LIABILITIES		814,300	646,955
NON-CURRENT LIABILITIES			
Interest-bearing bank loan		25,316	24,601
Total non-current liabilities		25,316	24,601
Net assets		788,984	622,354
EQUITY			
Equity attributable to owners of the parent			
Issued capital		55,913	46,676
Reserves		703,352	525,680
Proposed final dividend		—	45,470
Proposed interim dividend		8,962	—
		768,227	617,826
Minority interests		20,757	4,528
Total equity		788,984	622,354

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month ended 30 June 2010

	Issued share capital HK\$'000	Share premium account HK\$'000	Attributable to equity holders of the parent					Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
			Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000			
At 1 January 2009	31,117	177,587	10,702	–	93,814	131,845	4,668	449,733	4,528	454,261
Exchange realignment	–	–	–	–	(666)	–	–	(666)	–	(666)
Profit for the period	–	–	–	–	–	21,893	–	21,893	1,033	22,926
Total comprehensive income for the period	–	–	–	–	(666)	21,893	–	21,227	1,033	22,260
Issue of shares-open offer	15,559	26,450	–	–	–	–	–	42,009	–	42,009
Payment of final 2008 dividend	–	–	–	–	–	–	(4,668)	(4,668)	–	(4,668)
Interim 2009 dividend declared	–	–	–	–	–	(7,468)	7,468	–	–	–
At 30 June 2009	46,676	204,037*	10,702*	–*	93,148*	146,270*	7,468	508,301	5,561	513,862
	Issued share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 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	–	56,258	(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

* These reserve accounts comprises the consolidated reserves of HK\$703,352,000 (30 June 2009: HK\$454,157,000) in the condensed consolidated statement of financial position.

⁺ On 10 May 2010, the Company acquired an aggregate of 16.5% of the entire registered capital of Signature Industry Limited from independent third parties for a consideration of HK\$52,000,000 which was satisfied by the issuance of a total of 24,186,000 ordinary shares of the Company at HK\$2.15 per share.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Net cash inflow from operating activities	15,836	27,606
Net cash outflow from investing activities	(53,007)	(6,845)
Net cash inflow from financing activities	39,297	32,859
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,126	53,620
Cash and cash equivalents at beginning of period	113,695	40,414
Effect of foreign exchange rate changes, net	5,430	(666)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>121,251</u>	<u>93,368</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>121,251</u>	<u>93,368</u>

NOTES TO FINANCIAL STATEMENTS

30 June 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements 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.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2010:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment</i> <i>– Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments:</i> <i>Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 <i>included in Improvements to</i> <i>HKFRSs issued in</i> <i>October 2008</i>	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale</i> <i>and Discontinued Operations – Plan to Sell the Controlling Interest</i> <i>in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect</i> <i>of Hong Kong Land Leases</i>
HKFRSs (Amendments)	<i>Improvements to HKFRSs 2009</i>

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments have no financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The amendments did not have any significant implications on the Group’s accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognition, the reported results in the period that an acquisition occurs, and future reported results. While the adoption of the revised standard may result in changes in certain accounting policies, the revised standard did not have any financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will not have any impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. As the Group has not undertaken such transactions, the adoption of revised standard has no financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment did not have any financial impact on the Group.

HK(IFRIC)-Int 17 standardizes practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation did not have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. As the Group currently has no such sale plan, the amendment did not have any financial impact on the Group.

HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases included in Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

Improvements to HKFRSs

In May 2009, the HKICPA issued its *Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- (a) **HKFRS 2 *Share-based Payment***: Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.
- (b) **HKAS 1 *Presentation of Financial Statements***: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- (c) **HKAS 7 *Statement of Cash Flows***: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- (d) HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.
- (e) HKAS 36 *Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 Operating Segments before aggregation for financial reporting purposes.
- (f) HKAS 38 *Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- (g) HKAS 39 *Financial Instruments: Recognition and Measurement*: Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

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 Amendments – Additional Exemptions for First-time Adopters	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
HK(IFRIC)-Int 9	<i>Reassessment of Embedded Derivatives</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</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.

(i) Business segments

The following table present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the period ended 30 June 2010 and 2009.

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)	–
Total	<u>502,215</u>	<u>70,527</u>	<u>(27,654)</u>	<u>545,088</u>
Segment results	<u>64,196</u>	<u>7,296</u>	<u>–</u>	71,492
Unallocated gains				7,882
Corporate and unallocated expenses				(10,249)
Finance costs				(2,179)
Share of profits of associates				<u>3,002</u>
Profit before tax				69,948
Tax				<u>(2,213)</u>
Profit for the period				<u>67,735</u>
Segment assets	891,539	66,641		958,180
Reconciliation:				
Elimination of intersegment receivables				(27,654)
Corporate and other unallocated assets				<u>203,178</u>
Total assets				<u>1,133,704</u>
Segment liabilities	246,864	60,647		307,511
Reconciliation				
Elimination of intersegment payables				(27,654)
Corporate and other unallocated liabilities				<u>64,863</u>
Total liabilities				<u>344,720</u>

Period ended 30 June 2009	Franchise operation <i>HK\$'000</i>	Self-operating shops <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:				
Sales to customers	285,285	69,230	–	354,515
Intersegment sales	<u>26,503</u>	<u>–</u>	<u>(26,503)</u>	<u>–</u>
Total	<u>311,788</u>	<u>69,230</u>	<u>(26,503)</u>	<u>354,515</u>
Segment results	<u>26,627</u>	<u>4,673</u>	<u>–</u>	31,300
Unallocated gains				19
Unallocated expenses				(7,128)
Finance costs				(343)
Share of profits of an associate				<u>229</u>
Profit before tax				24,077
Tax				<u>(1,151)</u>
Profit for the period				<u>22,926</u>
Segment assets	602,505	47,923		650,428
Reconciliation:				
Elimination of intersegment receivables				(26,503)
Corporate and other unallocated assets				<u>121,710</u>
Total assets				<u>745,635</u>
Segment liabilities	184,166	10,303		194,469
Reconciliation:				
Elimination of intersegment payables				(26,503)
Corporate and other unallocated liabilities				<u>63,807</u>
Total liabilities				<u>231,773</u>

(ii) **Geographical segment**

The following table present revenue, for the Group's geographical segment for the six months ended 30 June 2010 and 2009.

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Segment revenue		
Sales to the PRC	537,572	338,697
Sales to elsewhere in Asia	4,167	1,474
Sales to Europe	731	1,131
Sales to Middle East	2,618	13,213
	545,088	354,515

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:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Revenue		
Sales of goods	545,088	354,515
Other income and gains		
Bank interest income	147	116
Others	7,735	1,916
	7,882	2,032
	552,970	356,547

4. PROFIT BEFORE TAX

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

	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited) (Restated)
Cost of goods sold	385,667	242,046
Depreciation of items of property, plant and equipment	25,906	20,252
Amortisation of intangible assets	450	332
Minimum lease payments under operating leases in respect of land and buildings	440	295
Bank interest income	<u>(147)</u>	<u>(116)</u>

5. FINANCE COSTS

	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Interest on bank loan	<u>2,179</u>	<u>343</u>

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 2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Current – PRC corporate income tax	<u>2,213</u>	<u>1,151</u>
Total tax charge for the period	<u>2,213</u>	<u>1,151</u>

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 was 25% as it expired the beneficial period of seventh years. The tax rate for Simply and Fufa was 12.5% as they were in their sixth profit-making year. The tax rate for Yufa was 12.5% as it was in its third beneficial year. No provision for corporate income taxes has been made by management for Fuli as it was in its second beneficial year.

The PRC Corporate Income Tax Law (the “New Corporate Income Tax Law”), which was approved in the 5th Session of the 10th National People’s Congress concluded on 16 March 2007, became effective on 1 January 2008. The New Corporate Income Tax Law introduced a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%, resulting in a change in the income tax rate. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. However, the change in the tax rate has had no material impact on the results and financial position of the Group for the period ended 30 June 2010.

7. DIVIDENDS

A dividend in respect of the six months ended 30 June 2010 of HK1.6 cents (2009: HK1.6 cents) per share, amounting to a total dividend of approximately HK\$8,962,000 was proposed by the Board on 16 August 2010. 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 540,657,000 in issue as adjusted by the issuances of new shares in January and May 2010 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:

	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	<u>60,037</u>	<u>21,893</u>
	Number of shares	
	2010 (Unaudited)	2009 (Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	540,657,000	442,542,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>26,610,000</u>	—
	<u>567,267,000</u>	<u>442,542,000</u>

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.

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 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 30 days	6,313	26,182
31 days to 90 days	12,180	1,594
91 days to 180 days	7,303	756
Over 180 days	3,745	1,418
	<u>29,541</u>	<u>29,950</u>

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:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 30 days	43,678	47,014
31 days to 90 days	31,435	24,258
91 days to 180 days	424	656
181 days to 360 days	1,564	128
Over 360 days	—	865
	<u>77,101</u>	<u>72,921</u>

11. BUSINESS COMBINATION

- (a) On 4 January 2010, the Group acquired a 50% interest in Beijing Yu Fa Jia Ju Co., Ltd. (“Beijing Yu Fa”) from two independent parties, Mr. Liyi and Mr. Zeng Pengfei. Beijing Yu Fa is engaged in the manufacture and sales of hardwood furniture. The purchase consideration for the acquisition was in the form of the ordinary shares of the Company issued in January 2010.

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

	Fair value and carrying amount as at the acquisition date HK\$'000 (Unaudited)
Property, plant and equipment	3,763
Intangible assets	4
Cash and bank balances	1,345
Trade receivables	11,787
Prepayment and other receivables	3,940
Inventory	11,042
Trade payables	5,073
Accruals and other payables	1,300
Total	<u>25,508</u>
50% interest acquired by the Company	12,754
Goodwill on acquisition	62,244
Satisfied by issuance of 68,180,000 ordinary shares of the Company at HK\$1.10 per share	74,998

There is no cash outflow in respect of the acquisition of Beijing Yu Fa.

As part of the purchase agreement, contingent consideration is payable, which is dependent on the profit before tax of Beijing Yu Fa during the 12-month period subsequent to acquisition. The consideration is payment to the former shareholders in January 2010 and due for final measurement at the end of December 2010. If the actual net profit in the financial year ending 31 December 2010 is less than a guaranteed net profit of HK\$20 million, the independent parties shall pay the Company HK\$3.75 on the basis that for every Hong Kong dollar of the difference between the actual net profit and the guaranteed net profit aforementioned. At the date of these financial statements, no further significant changes to the consideration are expected.

Since its acquisition, Beijing Fu Ya contributed HK\$14,488,000 to the Group's turnover and HK\$4,507,000 to the consolidated profit for the period ended 30 June 2010.

- (b) On 17 May 2010, the Group acquired 100% interest in Beauty City Holdings Limited from an independent third party. Beauty City Holdings Limited is an investment holding company which owns a piece of land adjacent to its Guangzhou Zengcheng office and showroom. The purchase consideration for the acquisition was in the form of cash, with HK\$1,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Beauty City Holdings Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	<i>Notes</i>	Fair value Recognized on acquisition <i>(Unaudited)</i> <i>HK\$'000</i>	Previous carrying amount <i>(Unaudited)</i> <i>HK\$'000</i>
Property, plant and equipment	15	9,567	9,567
Prepaid land lease payment		29,960	26,520
Cash and bank balances		1,124	1,124
Accruals and other payables		40,974	40,805
Goodwill on acquisition		1,323	
Satisfied by cash		1,000	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>HK\$'000</i>
Cash consideration	1,000
Cash and bank balances acquired	<u>1,124</u>
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>124</u></u>

Since its acquisition, Beauty City Holdings Limited did not contribute to the Group's turnover and HK\$554,000 loss incurred for the period ended 30 June 2010.

COMPARATIVE AMOUNTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company's financial year of 2010 started out as an exciting year. As the Chinese economy in terms of GDP robustly expanded at a rate of approximately 11.9% per annum for the first quarter, the furniture industry of China experienced an even faster pace of growth at approximately 37.6%. Nevertheless, the Chinese Central Government implemented various measures to curtail such high growth in the second quarter and the GDP growth rate has since slowed to about 10.3% per annum. Likewise, the growth of the furniture industry has slowed down toward the end of the first half of the year.

In light of the evolving revenue mixes, the Group has decided to reclassify the increasing non-core products (furniture items sourced to supplement Royal Furniture's product series) income which has been recorded as accessories income, a part of "Other Income and Gains" in the past, into the mainstream entry "Gross Profit". Accordingly, adjustments in both the sales revenue and cost of sales of the non-core products of HK\$127.0 million and HK\$103.0 million respectively were required to reflect the change in classification. For comparison purpose, the 2009 figures have been adjusted to reflect an increase in sales of HK\$103.6 million, cost of sales of HK\$78.0 million and gross profit of HK\$25.6 million.

After reclassification for six months' period ended 30 June 2010, the Group's turnover recorded an unprecedented growth rate of 54% to HK\$545.1 million (2009: HK\$354.5 million), due to both the result of the positive macro economic environment and the Group's aggressive growth strategy. While gross profit rose 42% to HK\$159.4 million (2009: HK\$112.5 million), gross profit margin dropped 2.4 percentage points to 29.3%. The decline was due to the growing direct material costs which boosted the cost of sales.

Nonetheless, the Group's rigorous cost management policies implemented in the past two years continue to provide positive results as they helped effectively contain part of the escalating cost of sales during the period which was attributed to the increasing prices on the materials used. Such measures also helped control the Group's selling and distributing costs and administrative expenses, aiding in boosting profit attributable to equity holders by almost 174% to HK\$60.0 million (2009: HK\$21.9 million). As a result, the Group was able to almost double its net profit margin to 12.4% (2009: 6.5%).

The Group has been using a two-pronged strategy to grow sales revenue. For the first and second tier cities, the Group offered more diversified product lines to accommodate the tastes of increasingly affluent customers. While its "Phoenix" series introduced in 2009 is highly sought by the market, the Group also launched in the first half of 2010 a very trendy product series "Jessica" which is specifically designed to target the fast growing numbers of middle class of young professionals. Regarding the third and fourth tier cities, the Group's strategy is to work closely with its franchisees to promote the more affordable product series. The Group has simultaneously expanded quickly into the third and fourth tier cities or county townships by signing up new franchisees.

Leveraging the positive effects as the exclusive supplier of home furniture for the Beijing 2008 Olympic Games, the Group's "Royal Furniture" brand continues to project a premium brand image benefiting its other products. Thus, the products of affordable price range marketed in the third or fourth tier cities and county townships are often perceived as premium products of fair value, adding a competitive edge for the Group in the market. The Group intends to continue fostering such an image and its leading brand position.

During the period, the Group has implemented a new human resource policy and recruited an unprecedented number of over 80 graduates from universities across China as management trainees to whom we will provide in-house and on-the-job training. Upon their training completion, the trainees will be assigned to the Group's first tier management team of various departments such as sales, production, logistics and finance. In the coming years, the Group will continue this trainee programme to train university graduates as a means to strengthen its management team to facilitate the growth strategy.

Subsequent to the Beijing 2008 Olympic Games, the Group has won the contract as the exclusive supplier of furniture products to the 26th Summer Universiade to be held at Shenzhen in 2011. With the scale and prestige only second to the Olympic Games, the Universiade will serve as a warm-up competition for a number of the world's top athletes before the London 2012 Olympic Games. The Group is currently working along with the Universiade to develop suitable products which meet the standards stipulated for the event.

At the beginning of the period under review, the Group acquired a 50% equity stake in Beijing Yufa Jiaju Co. Ltd. ("Beijing Yufa"), a manufacturer of the Group's "Phoenix" product series. Since then, Beijing Yufa has transferred part of its production from Beijing to Yonghe in Guangzhou, near the Group's main factory in Shitan, enabling the Group to better serve the eastern and southern China market. Toward the end of the period, the Group took up another 16.5% equity stake of Signature Industry Limited, its sofa manufacturing subsidiary, in addition to the 71% already owned by the Group, bringing the stake to 87.5% in total. This additional ownership allows the Group to have further operational control over the design and production of this key subsidiary. Likewise, the Group has acquired a 100% equity interest in Beauty City Holdings Limited which owns a piece of land adjacent to its Guangzhou Zengcheng office and showroom. With this land, the Group intends to build a training, conference and exhibition centre and office space for servicing its customers and franchisee partners in light of its future growth strategy.

PROSPECTS

The Government's austerity measures aimed at cooling the property market, particularly in the first and second tier cities, have adverse effects as potential home buyers defer their decisions to purchase properties, hence home furniture products, down the road. However, the measures are not intended to dampen the property market in the third or fourth tier cities and county townships. The Government's urbanisation policy in fact provides incentives for the rural Chinese citizens to migrate into the county townships where housing is in great demand. Thus, the property markets are expected to continue to grow in China's lower tier cities. The Group intends to capture this expanding market and will work with its franchisees to implement the growth strategy.

Complementing the fast growing strategy in the third or fourth tier cities, the Group will partner with regional logistic companies to establish logistic hubs across China to improve transportation efficiency of its supply chain by shortening the delivery time between production plant and the franchisees. This new logistic model will be first piloted in a few selected regions later this year. Upon careful study and improvement, the model is expected to be implemented by the Group throughout China by mid 2011.

Apart from winning the supply contract for the 2011 Summer Universiade, the Group has got other opportunities of bidding furniture supply contracts for various events or projects and won a few contracts for smaller-scale projects. Aiming to secure relatively large projects in both domestic and oversea markets, the Group expects the revenue generated from the sales to special events and projects to grow and account for a respectable percentage of the total revenue in the future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and bank balances of HK\$121.3 million as at 30 June 2010 (31 December 2009: HK\$113.7 million).

As at 30 June 2010, the Group had interest bearing bank loans total to HK\$112.9 million (31 December 2009: HK\$26.1 million) and no contingent liabilities. As at the same date, the gearing ratio (total liabilities over shareholder's equity) was 0.45 (31 December 2009: 0.40).

As at 30 June 2010, approximately 88% of the Group's cash was denominated in Renminbi. The exposure to the exchange fluctuation was minimal.

As at 30 June 2010, the current ratio (current assets/current liabilities) was 1.68 times (31 December 2009: 1.72) and the net current assets was HK\$217.6 million (31 December 2009: HK\$163.6 million).

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2010 was approximately 3,800 (2009: 2,300). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group.

DIVIDEND

The Board of Directors recommends a payment of an interim dividend of HK1.6 cents (2009: HK1.6 cents) per share for the six months ended 30 June 2010. The interim dividend will be distributed on or about 11 October 2010 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 October 2010.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27 September 2010 to 4 October 2010, 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 24 September 2010.

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 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, they have complied with the required standards set out in the Model Code for the period ended 30 June 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities for the period ended 30 June 2010.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The 2010 interim report of the Company, which contains consolidated financial statements for the six months ended 30 June 2010, and all other information required under Appendix 16 of the Listing Rules will be despatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.finance.thestandard.com.hk/en/comp_details_link.asp?code=01198) in due course.

By Order of the Board

Tse Kam Pang

Chairman

Hong Kong, 16 August 2010

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Tse Kam Pang, Mr. Ma Gary Ming Fai, Mr. Zeng Lejin and Mr. Lam Toi; and three independent non-executive Directors, namely, Dr. Donald H Straszheim, Mr. Chang Chu Fai Johnson Francis and Mr. Yau Chung Hong.