Royal FURNITURE 皇朝傢俬

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 2010

RESULTS

The Board of Directors (the "Board") of Royale Furniture Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 together with the comparative audited figures for the year ended 31 December 2009. The annual results for the year ended 31 December 2010 have been reviewed by the Company's audit committee.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	**2010** ***HK$'000***	2009 *HK$'000* (Restated)
REVENUE	*4*	**1,210,005**	892,234
Cost of sales		**(837,213)**	(605,626)
Gross profit		**372,792**	286,608
Other income and gains	*4*	**17,488**	11,181
Selling and distribution costs		**(127,459)**	(105,936)
Administrative expenses		**(61,541)**	(57,215)
Other expenses		**—**	(2,649)
Finance costs	*6*	**(3,483)**	(1,164)
Share of profits of associates		**6,330**	3,352
PROFIT BEFORE TAX	*5*	**204,127**	134,177
Income tax expense	*7*	**(13,422)**	(3,711)
PROFIT FOR THE YEAR		**190,705**	130,466
Attributable to:			
Owners of the Company		**181,253**	130,466
Non-controlling interests		**9,452**	—
		190,705	130,466
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic		**HK32.80 cents**	HK29.53 cents
Diluted		**HK31.17 cents**	HK28.99 cents

Details of the dividend payable and proposed for the year are disclosed in note 8 to the financial statements.

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	**2010**	2009
		HK$'000	*HK$'000*
PROFIT FOR THE YEAR		**190,705**	130,466
OTHER COMPREHENSIVE INCOME			
Changes in fair value of available-for-sale investment, net of tax		**(976)**	—
Exchange differences on translation of foreign operations		**22,786**	4,718
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**21,810**	4,718
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**212,515**	135,184
Attributable to:			
Owners of the Company		**203,008**	135,184
Non-controlling interests		**9,507**	—
		212,515	135,184

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**520,329**	386,200
Prepaid land lease payments		**93,698**	38,289
Goodwill		**64,427**	—
Intangible assets		**3,178**	3,972
Investments in associates		**49,910**	46,458
Available-for-sale investment		**7,456**	8,432
Other non-current assets		**69,890**	—
Total non-current assets		**808,888**	483,351
CURRENT ASSETS			
Inventories		**215,370**	118,844
Trade receivables	*10*	**54,569**	29,950
Prepayments, deposits and other receivables		**164,795**	112,255
Derivative financial instruments		**—**	14,000
Cash and cash equivalents		**238,199**	113,695
Total current assets		**672,933**	388,744
CURRENT LIABILITIES			
Trade payables	*11*	**101,928**	72,921
Other payables and accruals		**105,308**	84,657
Interest-bearing bank loans		**72,288**	1,498
Tax payable		**78,116**	66,064
Total current liabilities		**357,640**	225,140
NET CURRENT ASSETS		**315,293**	163,604
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,124,181**	646,955
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**22,903**	24,601
Deferred tax liabilities		**849**	—
Total non-current liabilities		**23,752**	24,601
Net assets		**1,100,429**	622,354
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**63,788**	46,676
Reserves		**956,971**	525,680
Proposed final dividends	*8*	**57,409**	45,470
		1,078,168	617,826
Non-controlling interests		**22,261**	4,528
Total equity		**1,100,429**	622,354

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, 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 ultimate holding companies of the Group are Crisana International Inc. and Charming Future Holding Limited, respectively, which are 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, 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 for buildings, derivative financial instruments and equity investments, 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that 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.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

Change in the presentation of revenue

In prior years, the net profit from the sales of non-core products was recorded as accessories income, a part of "Other income and gains".

In the current year, in light of the evolving revenue mixes, the Group has reclassified the accessories income from "Other income and gains" to the mainstream entry "Gross profit" in order to provide more relevant information in respect of the Group's operations and to conform with market practices. The revenue from the sales of accessories and the related cost of sales are not offset and are presented separately as "Revenue" and "Cost of sales" in the consolidated income statement within revenue and costs.

The effects of the change in the presentation have been accounted for retrospectively with comparative figures restated. The specific line items affected are as follows:

	2010	2009
	HK$'000	*HK$'000*
Increase in revenue	**238,455**	203,793
Increase in cost of sales	**181,986**	152,628
Increase in gross profit	**56,469**	51,165
Decrease in other income and gains	**56,469**	51,165

The change does not have any impact on the results of the Group in respect of the current and prior years.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

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 have no 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. Consequential amendments were made to various standards, including, but not limited 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*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[2]
HKFRS 12 Amendment	Amendment to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[6]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments:* Disclosures — *Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments:* Presentation — *Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 January 2012

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

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the franchise operation segment engages in the sale of home furniture through franchise operation; and

(b) the self-operating shops segment engages in the sale of home furniture through self-operating shops;

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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.

Year ended 31 December 2010	**Franchise operation**	**Self-operating shops**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue:			
Sales to external customers	997,354	212,651	1,210,005
Intersegment sales	112,247	—	112,247
Other revenue	14,623	402	15,025
	1,124,224	213,053	1,337,277
Reconciliation:			
Elimination of intersegment sales			(112,247)
Revenue			1,225,030
Segment results	190,533	27,222	217,755
Reconciliation:			
Interest income			2,463
Corporate and other unallocated expenses			(12,608)
Finance costs			(3,483)
Profit before tax			204,127

Year ended 31 December 2010	Franchise operation	Self-operating shops	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	1,185,802	66,099	1,251,901
Reconciliation:			
Elimination of intersegment receivables			(70,491)
Corporate and other unallocated assets			300,411
Total assets			1,481,821
Segment liabilities	231,249	14,759	246,008
Reconciliation:			
Elimination of intersegment payables			—
Corporate and other unallocated liabilities			135,384
Total liabilities			381,392
Other segment information			
Share of profits of associates	6,330	—	6,330
Depreciation and amortisation	41,472	6,775	48,247
Investments in associates	39,804	10,106	49,910
Capital expenditure*	240,494	13,490	253,984

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and intangible assets.

Year ended 31 December 2009	Franchise operation *HK$'000*	Self-operating shops *HK$'000*	Consolidated *HK$'000*
Segment revenue:			
Sales to external customers	743,178	149,056	892,234
Intersegment sales	70,756	—	70,756
Other revenue	10,814	—	10,814
	824,748	149,056	973,804
Reconciliation:			
Elimination of intersegment sales			(70,756)
Revenue			903,048
Segment results	128,820	18,354	147,174
Reconciliation:			
Interest income			367
Corporate and other unallocated expenses			(12,200)
Finance costs			(1,164)
Profit before tax			134,177
Segment assets	699,524	48,635	748,159
Reconciliation:			
Elimination of intersegment receivables			(40,405)
Corporate and other unallocated assets			164,341
Total assets			872,095
Segment liabilities	170,606	10,455	181,061
Reconciliation:			
Elimination of intersegment payables			(80)
Corporate and other unallocated liabilities			68,760
Total liabilities			249,741
Other segment information			
Share of profits of associates	3,259	93	3,352
Depreciation and amortisation	38,194	4,677	42,871
Investments in associates	36,352	10,106	46,458
Capital expenditure	27,482	3,608	31,090

Geographical information

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

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:

	2010	2009
	HK$'000	*HK$'000*
		Restated
Revenue		
Sale of goods	**1,210,005**	892,234
Other income and gains		
Bank interest income	**346**	367
Gain on disposal of items of property, plant and equipment	**117**	—
Interest income from an associate	**2,117**	—
Reversal of impairment of trade receivables	**2,660**	—
Sales of scrap	**12,248**	10,814
	17,488	11,181

5. PROFIT BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**837,213**	605,626
Depreciation of items of property, plant and equipment		**45,919**	41,085
Recognition of prepaid land lease payments		**1,397**	880
Amortisation of intangible assets*		**931**	906
(Gain)/loss on disposal of items of property, plant and equipment		**(117)**	34
Research and development costs*		**6,416**	6,155
Minimum lease payments under operating leases:			
Land and buildings		**54,406**	42,793
Auditors' remuneration		**1,920**	1,880
Employee benefit expense: (excluding directors' remuneration)			
Wages and salaries		**143,538**	95,659
Equity-settled share option expense		**12,223**	2,518
Pension scheme contributions		**2,615**	1,939
		158,376	100,116
(Reversal of impairment)/impairment of trade receivables	*10*	**(2,660)**	7,453
Foreign exchange difference, net		**31**	45
Write-down/(reversal of write-down) of inventories to net realisable value**		**1,084**	(9,310)
Bank interest income		**(346)**	(367)
Interest income from an associate		**(2,117)**	—

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

** The write-down/(the reversal of write-down) of inventories to net realisable value are included in the "Cost of Sales" on the face of the consolidated income statement.

6. FINANCE COSTS

	Group	
	2010 ***HK$'000***	2009 *HK$'000*
Interest on bank loans		
Wholly repayable within five years	**2,801**	67
Wholly repayable over five years	**682**	1,097
	3,483	1,164

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 (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2010	2009
	HK$'000	*HK$'000*
Group:		
Current — PRC corporate income tax	**13,433**	3,711
Deferred	**(11)**	—
	13,422	3,711

8. DIVIDENDS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Interim — 2010: HK1.6 cents (2009: HK1.6 cents) per ordinary share	**8,962**	7,468
Proposed final — 2010: HK9.0 cents (2009: HK8.5 cents) per ordinary share	**57,409**	45,470
	66,371	52,938

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 552,586,833 (2009: 441,770,528) in issue 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:

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**181,253**	130,466

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**552,586,833**	441,770,528
Effect of dilution — weighted average number of ordinary shares:		
Share options	**28,867,649**	8,304,000
	581,454,482	450,074,528

10. TRADE RECEIVABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**63,811**	41,852
Impairment	**(9,242)**	(11,902)
	54,569	29,950

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. 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	
	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**28,037**	26,182
31 to 90 days	**14,343**	1,594
91 to 180 days	**6,797**	756
Over 180 days	**5,392**	1,418
	54,569	29,950

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**11,902**	4,449
Impairment losses recognised *(note 5)*	**—**	7,453
Reversal of impairment losses *(note 4)*	**(2,660)**	—
At 31 December	**9,242**	11,902

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**42,380**	27,776
One to three months past due	**6,797**	756
Over three months past due	**5,392**	1,418
	54,569	29,950

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	
	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**78,838**	47,014
31 to 90 days	**21,241**	24,258
91 to 180 days	**456**	656
181 to 360 days	**227**	128
Over 360 days	**1,166**	865
	101,928	72,921

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

12. EVENTS AFTER THE REPORTING PERIOD

(i) On 20 December 2010, the subsidiaries of the Company entered into an agreement with Tianjin Nongken Company Limited ("Tianjin Nongken"), pursuant to which a joint venture Tianjin Royale Furniture Company Limited ("Tianjin Royale"), with a register capital of RMB150,000,000 will be established in Tianjin. The Group and Tianjin Nongken will make a cash contribution of RMB82,500,000 and RMB67,500,000. Tianjin Royale was established on 2 March 2011.

(ii) On 3 January 2011 and 31 January 2011, the Company has granted share options to the grantees which, subject to their acceptance, entitle them to subscribe for a total of 1,000,000 and 3,000,000 ordinary shares of HK$0.10 each of the Company under the share option scheme adopted by the Company on 26 April 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board has resolved to recommend a final dividend for the year ended 31 December 2010 in scrip form equivalent to HK 9 cents per share with a cash option to the shareholders whose names appear on the register of members of the Company on 11 May 2011.

The final scrip dividend is conditional upon the passing of the resolution relating to the payment of final dividend at the forthcoming annual general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the final scrip dividend.

Further details of the final scrip dividend will be disclosed in a circular to be despatched to the shareholders in due course.

Closure of the Register of Members

The Register of Members of the Company will be closed from 12 May 2011 to 18 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend and attending the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Registration Office in Hong Kong. Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queens's Road East, Wanchai, Hong Kong before 4:30 p.m. on 11 May 2011.

FINANCIAL REVIEW

The financial year of 2010 represents another record profit year for the Company on the heels of the record profit year of 2009. The significant growth in our sales revenue together with our rigorous cost control measures, as in the past, made 2010 a truly unique year for the Group. The Group also decided to raise its prices across the board toward the end of 2010 upon which we have the confidence to project our business for the future.

Riding on the robust expansion of the Chinese economy of approximately 9% per annum in 2010, the Company took the opportunity to expand aggressively on the sales fronts. Overall, our same store sales growth for the entire 2010 has provided the Group with a very satisfactory growth rate of 20.5%. The Group also generated significant growth from the new store outlets.

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 various product series) income into the mainstream entry of gross profit. This was previously recorded as accessories income, a part of "Other Income and Gains" in the past. The change added HK$56.5 million to gross profit. Accordingly, adjustments in both the sales revenue and cost of sales of the non-core products of HK$238.4 million and HK$181.9 million respectively were required to reflect the change in classification. For comparison purposes, the 2009 figures have been adjusted to reflect an increase in sales of HK$203.8 million, cost of sales of HK$152.6 million and gross profit of HK$51.2 million.

For the year under review, the Group's revenue increased by 35.6% to HK$1,210.0 million (2009: HK$892.2 million) due to both the Group's aggressive expansion plan and the positive macro-economic environment. While gross profit rose 30.1% to HK$372.8 million (2009: HK$286.6 million), gross profit margin dropped 1.3 percentage points to 30.8% due to the growing direct material costs which boosted the overall cost of sales.

The Group's stringent cost control policies implemented in the past two years continue to yield fruitful results as they helped to contain the ever-increasing cost of sales during 2010 which was attributed mainly to the escalating prices on direct materials and to hiking wages of direct labor. The cost control measures also helped to contain the growth of selling and distributing costs and administrative expenses, resulting with record low percentages of these expenses against the total revenue. As a result, the Group was able to achieve another record net profit of HK$181.3 million (2009: HK$130.5 million) which represents an increase of 38.9%. Excluding the non cash item of share option expense amounted to HK$15.2 million (2009: HK$3.0 million), the Group's net profit would have increased 47.2% to HK$196.5 million (2009: HK$133.5 million).

BUSINESS REVIEW

Sales Management

In the year under review, the Group has been growing its business across many fronts. First and foremost we have focused our sales strategy on the same store sales growth amongst our franchisee stores. During the first half of 2010, we implemented the "Sofa Week" campaign in which we have successfully promoted our sofa products across our franchise store network. This one-off promotion exercise gives us strong confidence that we could successfully launch similar campaigns with other products or mixes of products in the coming years.

Similarly, the same store sales growth of our self-operating stores also grew by leaps and bounds due to our strategy of reshuffling the product mix in which we have enlarged stores' space for selling more premium furniture products like Phoenix. This initiative has resulted with to an unprecedented rate of same store sales growth among our self-operating stores. It has also helped improve the gross profit margin of our self operating stores which has mitigated the effect of escalating prices of direct materials.

The Group has increased the number of outlets by 345 stores, comprising 325 franchised stores and 20 self-operating stores, to a total of 1,723 compared to a decrease of 22 stores in 2009. We have used a two-pronged strategy to grow sales revenue. For the first and second tier cities, the Group has launched the new product series such as "Jessica" and "Phoenix" to entice the existing franchisees dealers to open more stores. We also work with franchisee to promote our more affordable product series at the third and fourth tier cities as well as promoting the most popular product lines in the lower tier cities to attract new franchisees to open new stores in these uncharted territories.

By the ended of 2010, we decided to raise our wholesale prices by 9% for all product series, as one of the first-movers in China furniture industry, to offset the increasing cost of direct materials and wage which adversely affected our gross profit margin.

Product Development and Management

The Group has launched three new product series in 2010 compared to only one in 2009. The "Jessica" series was launched in March whereas the "Louis Palace" and "Butterfly" series were launched in the September. Both "Jessica" and "Butterfly" are made of panel wood with trendy designs. "Louis Palace", just as its name suggests, is fashioned in classical baroque style from traditional hardwood.

The Group since its early days is renowned for its product designs. This competitive strength however has been challenged by ongoing counterfeit production. Over the years, we have been working hand in hand with our major franchisees to counter these illegal acts. Noteworthy here, in late 2010, the Group has seized more than 500 beds and mattresses in Suzhou which were falsely labeled with the Royal Furniture brand and copying our designs. Following this incident, the Group has implemented anti-piracy measures such as setting up dedicated phone numbers to which for consumers could call and verify the authenticity of Royal Furniture's products with the specified code on the products.

Production Management

For the year under review, the value of production generated directly from our three factory plants has increased significantly due to our increased sales volume. This expansion of production scale allows us to achieve much better economies of scale which offset some of the increased cost of the direct materials. In additions, our enlarged production scale in 2010 affords us the opportunity to bargain for better unit prices on the direct materials to offset a certain extent of the increased cost.

In light of the fact that the production capacity is approaching its limitation, the Group has been actively planning for new production facilities in two regions outside Guangdong. Toward the end of 2010, we entered into a joint venture agreement with a local partner to take up an equity stake of 55% of a new factory plant to be built in the Wuqing District of Tianjin occupying 400 mu of land. This plant is expected to focus more on the production of bulky products such as hardwood furniture and sofa. In addition to Tianjin, the Group also intends to expand its production facility into Nanchang, Jiangxi which would to focus more on panel wood products. Upon reaching full production over the next several years, both of these new factories will increase the Group's current production capacity by another 150%.

Human Resource Management

To complement our growth strategy the Group has been actively recruiting all levels of management staff to support our long term expansion plan. In 2010 we recruited over 80 university graduates across China as management trainees to whom we have provided in-house and on-the-job training. They are now working with experienced managers in servicing our franchisees and supporting our daily operation. Moreover, the Group has recruited a number of senior executives from other major consumer and industrial groups in China. These new and seasoned managers would certainly bring new ideas and enthusiasm into the Group as we move forward with our expansion plan.

Business Acquisition and Investment

At the beginning 2010, 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 added another production line at our Yonghe Factory in Guangzhou, near the Group's main factory in Shitan, enabling the Group to better serve the market in both eastern and southern China. The acquisition of Beijing Yufa has been subsequently proven to be a strategic fit for the Group since it has contributed significantly to our growth in both revenue and profit.

In mid-2010, the Group took up another 16.5% equity stake in 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 enables the Group to further consolidate control over the design and production of this key subsidiary which has been growing significantly since the previous year due to the "Sofa Week" initiative.

The Group has also acquired a 100% equity interest in Beauty City Holdings Limited which owns a piece of land adjacent to its Guangzhou Zengcheng office and show room. With this land, the Group intends to build a campus center composed of training, conference and exhibition facilities as well as office space and lodging quarters for servicing its customers and franchisee partners to better implement our future growth strategy.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a cash and cash equivalents amounted to HK$238.2 million as at 31 December 2010 (2009: HK$113.7 million). Although the Group is principally financed by cash flow from operating activities, it has raised HK$227 million in gross proceeds from placement of newly issued shares to various investors in light of its expansion plan in the coming year.

As at 31 December 2010, except for the interest bearing loans amounted to HK$95.2 million (2009: HK$26.1 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 5.6% (2009: 10.2%). This represents a very low gearing ratio. Approximately, 69.3% 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 our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2010, the liquidity of the Group has improved as its current ratio (current assets to current liabilities) has increased to 1.88 (2009: 1.73) and the net current assets has surged to HK$315.3 million (2009: HK$163.6 million).

PROSPECTS

The Government's continuous austerity measures are aimed at cooling the property market, particularly in the first and second tier cities. These measures would results in deferring property purchase decisions by the potential home buyers and hence, down the road, home furniture products. However, the measures are not intended to dampen the property market in the third or fourth tier cities and county townships. Besides, the Central Government also announced its plan to build up to 10 million units of affordable housing for people in 2011 alone. This policy development is an encouraging message for the Group since some of our affordable product series are well aligned with demand of the potential residents.

The Government's urbanization 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.

After the Beijing 2008 Olympic Games, the Group 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 reconfiguring its production plan to gear toward the demand of the purchase orders which are at a final stage negotiation. The delivery and installation of our products for the Universiade is expected to be in late June or early July of 2011.

The Group is positive view toward the year of 2011. Given the raised wholesale price of 9% at the end of 2010, it is expected with a same store sales growth rate of at least that much for 2011. With similar effort on growing the volume of the same store sales just as 2010, the Group should have a very respectful rate on overall same store sales growth. Likewise, the Group intends to step up our effort in increasing the growth rate of our new store outlets in 2011 from that of 2010. Overall for the domestic market in China, the Group intends to launch new home products based on the concept of "Royal Home" instead of concentrating on furniture products alone as in the past. Our export business though small in the past, looks promising as new sales orders received for the first three months of 2011 are higher than those in prior years.

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2010 was approximately 3,800 (2009: 2,500). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. As at 31 December 2010, there were outstanding share options of approximately 54.2 million.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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.

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 31 December 2010.

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 31 December 2010.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 29 March 2011

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; three Independent Non-Executive Directors, namely, Dr. Donald H Straszheim, Mr. Chang Chu Fai Johnson Francis and Mr. Yau Chung Hong.