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 2011

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 2011 together with the comparative audited figures for the year ended 31 December 2010. The annual results for the year ended 31 December 2011 have been reviewed by the Company's audit committee.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
REVENUE	*4*	**1,547,318**	1,210,005
Cost of sales		**(1,060,671)**	(837,213)
Gross profit		**486,647**	372,792
Other income and gains	*4*	**10,404**	17,488
Selling and distribution costs		**(155,739)**	(127,459)
Administrative expenses		**(83,270)**	(61,541)
Finance costs	*6*	**(7,405)**	(3,483)
Share of profits of associates		**5,216**	6,330
PROFIT BEFORE TAX	*5*	**255,853**	204,127
Income tax expense	*7*	**(21,537)**	(13,422)
PROFIT FOR THE YEAR		**234,316**	190,705
Attributable to:			
Owners of the Company		**228,241**	181,253
Non-controlling interests		**6,075**	9,452
		234,316	190,705
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic		**34.33 cents**	32.80 cents
Diluted		**33.28 cents**	31.17 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 2011

	2011	2010
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**234,316**	190,705
OTHER COMPREHENSIVE INCOME		
Gain on property revaluation	**134,183**	—
Income tax effect	**(33,546)**	—
	100,637	—
Changes in fair value of available-for-sale investments, net of tax	**(1,434)**	(976)
Exchange differences on translation of foreign operations	**35,181**	22,786
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**134,384**	21,810
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**368,700**	212,515
Attributable to:		
Owners of the Company	**361,361**	203,008
Non-controlling interests	**7,339**	9,507
	368,700	212,515

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,120,640**	520,329
Prepaid land lease payments		**144,376**	93,698
Goodwill		**123,137**	64,427
Intangible assets		**2,344**	3,178
Investments in associates		**56,816**	49,910
Available-for-sale investments		**6,022**	7,456
Other non-current assets		**—**	69,890
Total non-current assets		**1,453,335**	808,888
CURRENT ASSETS			
Inventories		**255,293**	215,370
Trade receivables	*10*	**76,804**	54,569
Prepayments, deposits and other receivables		**186,799**	164,795
Pledged deposits		**20,000**	—
Cash and cash equivalents		**304,135**	238,199
Total current assets		**843,031**	672,933
CURRENT LIABILITIES			
Trade payables	*11*	**88,075**	101,928
Other payables and accruals		**124,539**	105,308
Interest-bearing bank loans		**149,054**	72,288
Tax payable		**97,219**	78,116
Total current liabilities		**458,887**	357,640
NET CURRENT ASSETS		**384,144**	315,293
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,837,479**	1,124,181
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**264,700**	22,903
Deferred tax liabilities		**34,377**	849
Total non-current liabilities		**299,077**	23,752
Net assets		**1,538,402**	1,100,429
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**68,232**	63,788
Reserves		**1,328,480**	956,971
Proposed final dividend		**54,610**	57,409
		1,451,322	1,078,168
Non-controlling interests		**87,080**	22,261
Total equity		**1,538,402**	1,100,429

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, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except available-for-sale investments and certain buildings 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 its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. 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 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.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010 (Include other standards as appropriate)*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to* HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

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

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKFRS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 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

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

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year (2010: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**1,547,318**	1,210,005
Other income and gains		
Bank interest income	**782**	346
Gain on disposal of items of property, plant and equipment	**—**	117
Interest income from an associate	**2,147**	2,117
Reversal of impairment of trade receivables	**—**	2,660
Sales of scraps	**7,475**	12,248
	10,404	17,488

5. PROFIT BEFORE TAX

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

	Note	**2011** *HK$'000*	2010 *HK$'000*
Cost of inventories sold		**1,057,328**	836,129
Depreciation of items of property, plant and equipment		**57,727**	45,919
Recognition of prepaid land lease payments		**2,616**	1,397
Amortisation of intangible assets*		**966**	931
Loss/(gain) on disposal of items of property, plant and equipment		**1,829**	(117)
Research and development costs*		**11,859**	6,416
Minimum lease payments under operating leases:			
Land and buildings		**56,169**	54,406
Auditors' remuneration		**1,980**	1,920
Employee benefit expense: (excluding directors' remuneration):			
Wages and salaries		**162,431**	143,538
Equity-settled share option expense		**11,472**	12,223
Pension scheme contributions		**8,221**	2,615
		182,124	158,376
Impairment/(reverse of impairment) of trade receivables	*11*	**2,951**	(2,660)
Write-down of inventories to net realisable value**		**3,343**	1,084
Bank interest income		**(782)**	(346)
Interest income from an associate		**(2,147)**	(2,117)

* 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.

** The write-down of inventories to net realisable value has been included in the "Cost of Sales" on the face of the consolidated income statement.

6. FINANCE COSTS

	Group	
	2011 *HK$'000*	2010 *HK$'000*
Interest on bank loans:		
Wholly repayable within five years	**6,895**	2,801
Wholly repayable over five years	**510**	682
	7,405	3,483

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 (2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2011	2010
	HK$'000	*HK$'000*
Group:		
Current — PRC corporate income tax	**21,555**	13,433
Deferred	**(18)**	(11)
	21,537	13,422

8. DIVIDENDS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Interim – HK3.0 cents (2010: HK1.6 cents) per ordinary share	**20,470**	8,962
Proposed final – HK8.0 cents (2010: HK9.0 cents) per ordinary share	**54,610**	57,409
	75,080	66,371

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 664,836,334 (2010: 552,586,833) 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:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**228,241**	181,253

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**664,836,334**	552,586,833
Effect of dilution — weighted average number of ordinary shares:		
Share options	**20,949,715**	28,867,649
	685,786,049	581,454,482

10. TRADE RECEIVABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**89,191**	63,811
Impairment	**(12,387)**	(9,242)
	76,804	54,569

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	
	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**35,507**	28,037
31 to 90 days	**17,711**	14,343
91 to 180 days	**21,545**	6,797
Over 180 days	**2,041**	5,392
	76,804	54,569

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**9,242**	11,902
Impairment losses recognised/(reversed) *(note 5)*	**2,951**	(2,660)
Write off	**(257)**	—
Exchange realignment	**451**	—
At 31 December	**12,387**	9,242

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**53,218**	42,380
One to three months past due	**21,545**	6,797
Over three months past due	**2,041**	5,392
	76,804	54,569

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	
	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**51,677**	78,838
31 to 90 days	**28,914**	21,241
91 to 180 days	**5,296**	456
181 to 360 days	**1,436**	227
Over 360 days	**752**	1,166
	88,075	101,928

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

12. COMMITMENTS

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Land and buildings	**234,441**	150,000
Plant and machinery	**61,695**	50,000
	296,136	200,000

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

13. EVENT AFTER THE REPORTING PERIOD

The Board proposes to increase the share capital of the Company by capitalising the retained profits of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders on the basis of 1 bonus share for every 8 ordinary shares held by the shareholders. Based on a total of 682,323,418 shares in issue as at 31 December 2011, 85,290,428 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$68,232,000 to HK$76,761,000 upon completion of the bonus issue. The amount of HK$8,529,000 will be capitalised from the Company's retained profits.

The bonus issue and the increase in the Company's share capital will be subject to the shareholders' approval at the forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board recommends a payment of a final dividend of HK8.0 cents per share to the shareholders whose names appear on the register of members of the Company on 28 May 2012. Together with the interim dividend of HK3.0 cents per share (2010: HK1.6 cents), the total dividend for the year ended 31 December 2011 is HK11.0 cents per share (2010: HK10.6 cents), representing an increase of 3.8% from 2010. The adjusted final dividend is to adhere the dividend payout ratio observed by the Company under normal circumstances, by paying about 35% of the profit for the year attributable to shareholders. The Company intends to follow such practice in the future.

The Board also proposes for a bonus issue of shares on the basis of 1 bonus share for every 8 existing shares held by the shareholders whose names appear on the register of members of the Company on 28 May 2012, subject to the shareholders' approval.

Further details of the bonus issues (including its timetable) will be disclosed in a circular to be dispatched to the shareholders in due course.

Closure of the Register of Members

The Register of Members of the Company will be closed from 17 May 2012 to 18 May 2012, 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, 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 16 May 2012.

In addition, the Register of Members of the Company will be closed from 24 May 2012 to 28 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed bonus issue. In order to qualify for the proposed bonus issue, 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 2012.

FINANCIAL REVIEW

The financial year of 2011 represents another record profit year for the Company on the heels of the record profit years of 2009 and 2010. The significant growth in our sales revenue together with our improved gross profit margin, made 2011 a truly remarkable year for the Group despite the relatively poor consumer sentiment in China toward the end of the year. The Group also decided to raise its wholesale prices, 7% across the board on all non-sofa products toward the end of 2011 which is evidence of our confidence to project the Group's business into the future.

For the year under review, the Group's revenue increased by 27.9% to HK$1,547.3 million (2010: HK$1,210.0 million) due to both the Group's aggressive expansion plan in the Tier 3 and 4 cities and the one-time sales generated from the Shenzhen Universiade Game. Our gross profit rose 30.5% to HK$486.6 million (2010: HK$372.8 million) with the help of an improved gross profit margin which increased 0.7 percentage points to 31.5%.

The Group's stringent cost control policies implemented in the past three years continue to yield fruitful results as they helped to contain the ever-increasing cost of sales during 2011 which was attributed mainly to the escalating prices on direct materials and to the hiking wages of direct labor. While the increase of selling and distribution costs and administrative expenses in total dollar value year over year is considered to be significant, their total as a percentage to total revenue has remained flat at 15.4% (2010: 15.6%). Overall, the Group was able to achieve another record net profit of HK$228.2 million (2010: HK$181.3 million) which represents an increase of 25.9%.

BUSINESS REVIEW

Sales Management

During the year, the Group generated 85.2% and 14.8% of our sales from our franchisee stores together with others and self operating stores respectively. In light of a lower growth in the Tier 1 & 2 cities due to the restrictive government policies over the housing market during the year under review, the Group has been focusing its growth instead in aggressively expanding its franchisee business into the Tier 3 and 4 cities representing the frontiers of China's urbanization policy. During 2011, the Group also encouraged our franchisees to be more competitive by building larger stores and carrying more product series. In total our entire sales network has added close to 300 new stores for the year.

Since the beginning of the year, the Group has implemented a new distribution strategy by having multiple franchisees within the same city. This differs from the past when each franchisee had an exclusive dealership of all product series within that city which resulted in many product series ended up not being available for sale as most franchisees may not have the capabilities to carry more than a few product series. This strategy enabled the Group to open new stores that may not have happened without such new policy. With a more rigorous effort in managing our franchisees through a much improved sales executives to franchisees ratio, the franchisee stores during the year have achieved a satisfactory same stores' sales growth ("SSSG") rate. This growth factor has provided the major growth leg for the Group.

Our self operating stores' same stores' sales growth rate was slightly negative for the entire year. This is due to fact that in the second half of 2011, our self operating stores being located at the Tier 1 and the provincial capital cities experienced their first downturn in sales for the recent years since the 2008 Financial Tsunami. Such disappointed performance was resulted from the very effect of the restrictive housing policies targeting the upper tier cites. There was no exception for any of the Tier 1 and provincial capital cities where our self operating stores operated during the year.

In December 2011, we raised our wholesale prices for all non-sofa products, to offset the increasing costs of direct materials and wages which could adversely affect our gross profit margin if it was not carried out quickly. This wholesale price increase has been in addition to the previous price increase across the board for all products back in November 2010.

Product Development and Management

The Group has launched two new product series in 2011 compared to three in 2010. The full product series, "Dolce Vita" which is very modern in style and featured with self-closing mechanism for all drawers, was launched in March. The Group has totally redesigned the "Butterfly" series which is also modern in style, to allow the new products with much more color varieties than simply just black and white as it was originally launched back in 2010.

In light of the fast growing number of very wealthy households in China, there is a significant demand of luxury furniture imported from Europe. Thus, the Group has speed up its collaboration with Treci, a well established furniture house in Italy with over 90 years of history to source a collection of luxury furniture products made in Italy to be sold first in selected coastal cities like Wuxi and then throughout China. Unfortunately at the recent trade fair in March, the Group has discovered pirated copies of the Treci products being exhibited. We have immediately taken all legal actions to stop such blatant piracy including removal of the pirated products from the trade fair and conducted numerous press interviews to expose such outright piracy.

Production Management

For the year under review, the production volume generated directly from our three factory plants has surged significantly due to our increased sales volume from the regular customers and the one-time sales to the Shenzhen Universiade Game. This expansion of production scale allows us to achieve much better economies of scale which offset some of the ever escalating cost of the direct materials.

During the year, the Group decentralized its production management to provide more autonomy for the individual supervisors to manage their respective work crews. Such new management technique boosted labor productivity across the board and provided incentive and flexibility for various labor modules within our factories to formulate their individual work flow schedules in order to minimize their usage of the existing plant facilities. As a result, this technique has allowed the Group to achieve higher productivity while keeping the same number of factory head counts.

In 2011, the Group has been actively planning new production facilities in the two regions of Tianjin and Nanchang of the Jiangxi Province. By the end of 2011, 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, has completed the initial stage of the factory construction. It is expected that the factory will be ready up for trial production by the third quarter of 2012 upon tooling and equipment installations in the coming months. This Tianjin plant is expected to focus more on the production of bulky products such as hardwood furniture and sofas. In addition to Tianjin, the Group is also planning another plant facility in Nanchang which would focus more on panel wood products. The Nanchang plant is not expected to come into production until the third quarter of 2013. Upon reaching full production over the next several years, both of these new factories will increase the Group's current production capacity by at least 150% of our current level.

Human Resource Management

To complement our growth strategy, the Group has been actively revamping its staff and line management resources of all levels in order to support our long term expansion plan. In 2011, we recruited more wholesales account officers which are now total over 160 as compared to only 60 just 18 months ago. We expect to hire more of the same type of officers in the future as we plan to expand aggressively into Tier 3 and 4 cities over the next several years.

Capital Expenditure

In order to meet our future growth target, the Group has capital expenditure programs other than investing in the Tianjin and Nanchang plants. The Group is also committed to invest in our flagship store at Harbin. The Harbin flagship store is expected to facilitate the Group to penetrate into the growing Northeastern market of China. In addition, a training center is to be built in Guangzhou Zhengchen. As a leading retailer of furniture in China, the Group together with its franchisees employ over ten thousand store managers and sales staff all over China. We believe our ultimate services lie with this team of sales force. Thus, a state of the art training center is constructed to ensure our products and store images are being properly presented to all over China.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a cash and cash equivalents amounted to HK$324.1 million as at 31 December 2011 (2010: HK$238.2 million). Although the Group's expansion plan is principally financed by cash flow from operating activities, it has raised HK$318.6 million in new loan proceeds mainly through a new syndicated bank line.

As at 31 December 2011, except for the interest bearing loans amounted to HK$413.7 million (2010: HK$95.1 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 18.2% (2010: 5.6%). This still represents a low gearing ratio. Approximately, 76% 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 2011, the liquidity of the Group was slightly reduced as its current ratio (current assets to current liabilities) has slightly decreased to 1.84 (2010: 1.88) and the net current asset has surged to HK$384.1 million (2010: HK$315.3 million).

PROSPECTS

The Chinese government's restrictive housing policies aimed at dampening the China property market prices in general have proven to be effective and there are signs that Government is relaxing its stands toward the first time home buyers. In light of this sort of incentive policies being implemented, the Group is more optimistic toward the second half of 2012, especially with the view that there will be much pent-up demand accumulated in the past to be satisfied.

Other than the growth to be spurred by the partial relaxation of the restrictive housing policies, the affordable social housing schemes implemented by various local governments across China in the past 2 years will finally yield fruits in 2012. There will be 10 million housing units to be completed under such a scheme. The first batch of these units will be available for possession by the owners as early as July. The Group will be working through its network of self operating stores and franchisee stores to embrace such an opportunity. Some of our new stores carrying some of our more affordable product series, will be strategically located in the surrounding neighborhoods of these affordable housing units instead of the typical furniture malls.

Overall, the urbanization policy of China continues to cause rural population to move into the county townships or Tier 3 and 4 cities. With such a government policy in mind, the Group will press on with its aggressive strategy to penetrate ever more deeply into the Tier 3 and 4 cities.

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2011 was 3,800 (2010: 3,800). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2011, there were 39,250,000 outstanding share options.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with 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 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. Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

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.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 29 March 2012

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 Le Jin and Mr. Lam Toi; four Independent Non-Executive Directors, namely, Dr. Donald H. Straszheim, Mr. Chang Chu Fai Johnson Francis, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew.