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 2013

RESULTS

The Board of Directors (the "Board") of Royale Furniture Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 together with the comparative audited figures for the year ended 31 December 2012. The annual results for the year ended 31 December 2013 have been reviewed by the Company's audit committee.

* *For identification purposes only*

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	4	**994,032**	1,063,736
Cost of sales		**(897,566)**	(753,375)
Gross profit		**96,466**	310,361
Other income	4	**15,071**	14,910
Selling and distribution expenses		**(221,160)**	(180,850)
Administrative expenses		**(137,790)**	(96,771)
Finance costs	6	**(20,456)**	(18,764)
Share of profits of associates		**2,352**	5,023
Impairment of trade receivables, net		**(60,652)**	–
Impairment of goodwill	5	**(123,138)**	–
Other expenses	5	**(16,333)**	–
(LOSS)/PROFIT BEFORE TAX	5	**(465,640)**	33,909
Income tax expense	7	**(4,475)**	(8,895)
(LOSS)/PROFIT FOR THE YEAR		**(470,115)**	25,014
Attributable to:			
Owners of the Company		**(455,793)**	21,629
Non-controlling interests		**(14,322)**	3,385
		(470,115)	25,014
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		**(36.25) cents**	2.46 cents
Diluted		**(36.25) cents**	2.44 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	2013	2012
	HK$'000	*HK$'000*
(LOSS)/PROFIT FOR THE YEAR	**(470,115)**	25,014
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**138**	2,115
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**180**	–
	318	2,115
Exchange differences on translation of foreign operations	**58,977**	10,030
Share of other comprehensive income of associates	**764**	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**60,059**	12,145
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	**–**	45,981
Income tax effect	**–**	(8,556)
	–	37,425
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**–**	37,425
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**60,059**	49,570
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(410,056)**	74,584
Attributable to:		
Owners of the Company	**(399,590)**	70,350
Non-controlling interests	**(10,466)**	4,234
	(410,056)	74,584

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,371,755**	1,285,522
Prepaid land lease payments		**212,988**	211,862
Goodwill		**67,730**	190,868
Intangible assets		**1,316**	1,397
Investments in associates		**40,153**	53,370
Available-for-sale investments		**2,435**	8,137
Total non-current assets		**1,696,377**	1,751,156
CURRENT ASSETS			
Inventories		**361,014**	322,407
Trade receivables	*10*	**53,586**	91,683
Prepayments, deposits and other receivables		**139,676**	184,658
Pledged deposits		**–**	20,000
Cash and cash equivalents		**175,199**	408,471
Total current assets		**729,475**	1,027,219
CURRENT LIABILITIES			
Trade payables	*11*	**132,089**	76,791
Other payables and accruals		**249,410**	196,027
Interest-bearing bank and other borrowings		**137,768**	338,445
Loans from a director	*12*	**28,374**	–
Loan from non-controlling interests	*13*	**36,019**	–
Tax payable		**110,819**	105,190
Total current liabilities		**694,479**	716,453
NET CURRENT ASSETS		**34,996**	310,766
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,731,373**	2,061,922

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 December 2013

	2013	2012
	HK$'000	*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,731,373**	2,061,922
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**233,521**	244,457
Deferred tax liabilities	**39,410**	41,385
Deferred government grant	**12,807**	–
Total non-current liabilities	**285,738**	285,842
Net assets	**1,445,635**	1,776,080
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**139,338**	116,138
Reserves	**1,201,867**	1,538,658
Proposed final dividend	**–**	6,388
	1,341,205	1,661,184
Non-controlling interests	**104,430**	114,896
Total equity	**1,445,635**	1,776,080

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

Royale Furniture Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Century Yard, Cricket Square, Hutchins Drive, 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 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and the buildings classified as property, plant and equipment, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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 interests 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 13, amendments to HKFRS 10, HKFRS 11, HKFRS 12, and HKAS 1 Amendments, and certain amendments included in *Annual Improvements 2009-2011 Cycle*, 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:

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

    As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

    The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

(c) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

(d) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(e) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[4]
HKAS 19 Amendments	Amendments to *HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HK(IFRIC) – Int 21	*Levies*[1]
Annual Improvements 2010– 2012 Cycle	Amendments to a number of HKASs issued in July 2014[2]
Annual Improvements 2011– 2013 Cycle	Amendments to a number of HKASs issued in July 2014[2]

[1] *Effective for annual periods beginning on or after 1 January 2014*

[2] *Effective for annual periods beginning on or after 1 July 2014*

[3] *No mandatory effective date yet determined but is available for adoption*

[4] *Effective for annual periods beginning on or after 1 January 2016*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has not early adopted the amendments in these financial statements.

3. OPERATING SEGMENT INFORMATION

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

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2012: Nil).

4. REVENUE AND OTHER INCOME

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

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

	2013	2012
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**994,032**	1,063,736
Other income and gains		
Bank interest income	**276**	1,092
Other interest income	**596**	3,258
Gain on disposal of available-for-sale investments	**673**	–
Licence fees income	**761**	735
Sales of scraps	**12,765**	9,825
	15,071	14,910

5. (LOSS)/PROFIT BEFORE TAX

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

	2013	2012
	HK$'000	*HK$'000*
Cost of inventories sold	**880,232**	753,375
Depreciation of items of property, plant and equipment	**87,545**	61,561
Recognition of prepaid land lease payments	**5,052**	4,994
Amortisation of intangible assets*	**1,139**	974
Loss on disposal of items of property, plant and equipment	**–**	2,088
Research and development costs*	**9,237**	8,633
Minimum lease payments under operating leases:		
Land and buildings	**80,703**	79,155
Auditors' remuneration	**1,980**	1,980
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**195,974**	184,184
Equity-settled share option expense	**9,625**	7,246
Expenses recognised for cancellation of share options	**–**	747
Pension scheme contributions	**14,231**	11,989
	219,830	204,166
Write-down of inventories to net realisable value**	**17,334**	–
Reversal of impairment of trade receivables *(note 10)*#	**(7,917)**	(385)
Impairment of trade receivables *(note 10)*#	**68,569**	–
Impairment of goodwill	**123,138**	–
Impairment of investments in associates^	**15,875**	–
Loss on deemed disposal of an associate^	**458**	–

* 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 statement of profit or loss.

** Write-down of inventories to net realisable value has been included in "Cost of sale" on the face of the consolidated statement of profit or loss.

\# These items comprise "Impairment of trade receivables, net" on the face of consolidated statement of profit or loss.

^ These items comprise "Other expenses" on the face of the consolidated statement of profit or loss.

6. FINANCE COSTS

	Group	
	2013	2012
	HK$'000	*HK$'000*
Interest on bank loans:		
Wholly repayable within five years	**18,450**	18,426
Wholly repayable over five years	**234**	338
Interest on loans from a director	**302**	–
Interest on loan from non-controlling interests	**1,426**	–
Interest on other loan	**44**	–
	20,456	18,764

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 (2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2013	2012
	HK$'000	*HK$'000*
Current – PRC corporate income tax	**6,450**	10,443
Deferred	**(1,975)**	(1,548)
	4,475	8,895

8. DIVIDENDS

	Group	
	2013	2012
	HK$'000	*HK$'000*
Proposed final – Nil (2012: HK0.55 cents) per ordinary share	**–**	6,388

No interim dividend was declared and paid in 2013 (2012: Nil). The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2013.

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

The calculation of basic loss/earnings per share is based on the loss/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,257,355,099 (2012: 879,315,208) in issue during the year.

The calculation of the diluted loss/earnings per share amount is based on the loss/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 loss/earnings per share are based on:

	2013	2012
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic and diluted loss/earnings per share calculations	**(455,793)**	21,629

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss/earnings per share calculation	**1,257,355,099**	879,315,208
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	8,349,614
	1,257,355,099	887,664,822

10. TRADE RECEIVABLES

	Group	
	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**58,130**	103,786
Impairment	**(4,544)**	(12,103)
	53,586	91,683

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	
	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**43,719**	77,454
31 to 90 days	**8,448**	11,240
91 to 180 days	**1,419**	2,989
	53,586	91,683

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**12,103**	12,387
Impairment losses recognised *(note 5)*	**68,569**	–
Amount written off as uncollectible	**(68,569)**	–
Reversal of impairment *(note 5)*	**(7,917)**	(385)
Exchange realignment	**358**	101
At 31 December	**4,544**	12,103

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**52,167**	88,694
One to three months past due	**1,419**	2,989
	53,586	91,683

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	
	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**69,984**	40,490
31 to 90 days	**53,307**	33,596
91 to 180 days	**6,997**	596
181 to 360 days	**601**	1,483
Over 360 days	**1,200**	626
	132,089	76,791

Included in the trade and bills payables are trade payables of HK$3,230,000 (2012: Nil) due to associates which are repayable within 90 days, which represents credit terms similar to those offered by the associates to their major customers.

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

12. Loans from a director

	Group	
	2013	2012
	HK$'000	*HK$'000*
Mr. Tse Kam Pang	**28,374**	–

Mr. Tse Kam Pang is one of the directors and also the Chairman of the Company. As at 31 December 2013, loans with an aggregate amount of HK$11,808,000 are unsecured, interest-free and have no fixed terms of repayment. A loan of HK$16,264,000 is unsecured, bears interest at a rate of 6% per annum and has no fixed terms of repayment. The rest of the outstanding balance of HK$302,000 with Mr. Tse Kam Pang is the accrued interest for the above interest-bearing loans.

13. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum and will be repayable in one year. As at the end of the reporting period, included in the outstanding balance with the non-controlling interests was an amount of HK$1,426,000, which is the accrued interest for the loan.

14. COMMITMENTS

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

	Group	
	2013	2012
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Land and buildings	**73,000**	128,573
Plant and machinery	**–**	98,712
	73,000	227,285

15. CONTINGENT LIABILITIES

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

Company	**2013**	2012
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	150,000

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company amounted to HK$374,000,000, which were utilised to the extent of approximately HK$150,000,000. The carrying amount of the financial guarantee contracts recognised in the Company's statement of financial position in accordance with HKAS 39 and HKFRS 4 was HK$4,473,000. The financial guarantee contracts were eliminated on consolidation. The loan was repaid in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board has resolved not to declare a final dividend for the year ended 31 December 2013 (2012: HK$0.55 cents).

Closure of the Register of Members

The Register of Members of the Company will be closed from 30 May 2014 to 6 June 2014, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on 6 June 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 29 May 2014.

FINANCIAL REVIEW

The Group experienced a very difficult year in 2013.

For the year ended 31 December 2013, the Group recorded a net loss of HK$470.1 million as a result of lower sales and the much worsened gross profit margin combined with the escalated selling and distribution and administrative expenses plus the one-time write-off items on goodwill impairment, accounts receivable impairment and deemed disposal on dilution of associate. Excluding these one-time write-off items totalling HK$200.1 million, the Group's a net loss would be HK$270.0 million.

The Group's revenue decreased by 6.6% to HK$994.0 million (2012: HK$1,063.7 million). The gross profit margin however, has greatly worsened from 29.2% to 9.7% due to a number of factors. Foremost, its cost of sales increased due to the sharply increased labor cost, higher material costs and increased overhead. The declined margin was also caused by sales price decrease due to larger incentives provided to the distributors during the year.

The Group's selling and distribution expenses increased by 22.3% to HK$221.2 million (2012: HK$180.9 million) as it participated in a number of major co-advertisements together with its franchisee distributors during sales campaigns and the signing expense of Ms. Lin Chiling, the Group's new spokesperson. The Group's administrative expenses also rose sharply by 42.4% to HK$137.8 million (2012: HK$96.8 million), was mainly due to the results of restructuring exercises and the opening of the Tianjin plant. The finance costs of the Group during the year rose moderately at 9% due to the change of loan composition.

BUSINESS REVIEW

Sales and Network Management

During the year under review, the Group like other manufacturers across the Chinese manufacturing industries was faced with the problem of excess production capacity. In dealing with its franchisee distributors under such adverse circumstances, the Group offered different schemes of sales incentives in order to maintain its market share. In managing its sales network, while the Group closed down a number of unprofitable self-operating stores, it took over some franchise stores from the financially weakened distributors for management in order to avoid any vacuum in the geographic coverage of the franchise network.

Offline to Online Initiative

During the year, the Group has launched an online store as a new sales channel. Due to its brand reputation in China, it quickly established itself as one of the major furniture vendors at the T-Mall of the Alibaba Group. In order to avoid any potential conflict with the existing franchisee distributors, the Group crafted out certain newly designed products like sofas for the online store without duplications with those of the offline sales channels. Although the current sales volume from this online store is not significant for the time being, the Group believes it will offer long term growth potential.

Import Business

In the past year, the Import Division of the Group focused on developing the Duresta Brand (a top end English luxury sofa with 75 years of history) in the China market. Five Duresta stores were opened in China, of which three are self-operating stores namely, Guangzhou, Shanghai and Beijing; and a few more have been or are scheduled to open in 2014. At the beginning of 2014, the Group launched an interior designer competition on the internet (http://special.id-china.com.cn/2014/idd/) in collaboration with Duresta and Interior Design (the Chinese edition of the US based designer magazine) to promote the Duresta Brand to Chinese designers. In light of the depressed demand for luxury goods prevailing in China, no significant monetary contribution to the Group would be expected from its import business. Nonetheless, market positioning in the luxury furniture sector is considered to be of strategic significance to the long term development of the Group's business.

Brand Management

During the year under review, the Group appointed the well-known movie star, Ms. Lin Chiling as the Group's new spokesperson for enhancing its brand image to target a relatively younger group of consumers. This initiative is in line with the Group's practice in the past to refresh its brand image with a new spokesperson after several years of branding exercises. The Group shall continue to leverage on its brand recognition across China for enhancing sales.

Production Challenge

The Group as a typical manufacturer in China was squeezed by all cost factors, especially the ever increasing labor cost. As the major cities across China were faced with high cost of living, this caused the rural workers to stay at their home towns to seek work there. Faced with labor shortage, the Group had to hike its wage rates drastically across the board for retaining and hiring both skilled and semi-skilled workers. In addition we were faced with the issue of lower productivity with the newly hired workers.

New Plant Facilities

The Group's Tianjin plant commenced small scale production in the last quarter of 2013 after several months of delay. Amidst the presently weak market environment, the Group decided to move much slower than planned in scaling up the Tianjin plant. As for the Nanchang plant of the Jiangxi Province under planning, the Group continues to defer major capital expenditure until the market condition improves.

Liquidity and Financial Resources

The Group maintained a cash and cash equivalents amounted to HK$175.2 million as at 31 December 2013 (2012: HK$408.5 million).

As at 31 December 2013, in addition to the interest bearing loan amounted to HK$371.3 million (2012: HK$582.9 million), the Group has loans from a director and non-controlling interests in a total of HK$64.4 million. As at the year end, the net debt divided by capital plus net debt of the Group was 32.4% (2012: 21.2%). Approximately, 66.1% of the Group's cash was denominated in Renminbi with the remaining balance was denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2013, the Group's current ratio (current assets to current liabilities) has decreased to 1.05 (2012: 1.43) and the net current asset has decreased to HK$35.0 million (2012: HK$310.8 million).

Prospects

In light of the Chinese government's currently tight monetary policy to control the property prices and lack of government stimulus in the horizon coupled with the weakening macro-economic outlook, the Group believes that it will continue to face strong head winds in the foreseeable future.

During the conferences of the NPC and CPPCC held in early March 2014, the Chinese government put much emphasis on quality growth instead of maximizing growth and stressed that no major stimulus plan will be needed in 2014 just as in 2013. Under these circumstances, the Group anticipates the coming year will remain a very difficult one for the furniture industry in China. It will strive to strengthen its cost cutting measures to improve operating efficiency.

While cost cutting measures will be implemented as a priority for improving our profit margins, the Group will also sharpen its focus on sales channel management, especially with regard to the franchisee network. This will help the Group to implement its sales and marketing policies more effectively in the coming year. The Group believes its investments in branding in the past and improved sales channel management will yield fruitful results over time.

On the longer term horizon, the Group is cautiously optimistic on the Chinese furniture market as the government continues with its urbanization policy. In addition, the relaxation on the "One Child" policy for certain categories of families, would mean some Chinese households will grow bigger and new furniture will be required. Both policies would be conducive to the long term development of the Chinese furniture industry.

Employees and Remuneration Policies

As at 31 December 2013, the Group had approximately 3,350 staff. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

Code Provision A.2.1

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted for compliance by the directors and relevant employees the code of conduct for dealings in securities of the Company as set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), of the Listing Rules. The Company, having made specific enquiry, confirms that members of the Board complied throughout the year with the Model Code.

The Audit Committee has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written term of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has also held meeting with the Group's external auditors without the presence of executive directors and management of the Group, to discuss matters arising from the auditing, internal controls and financial reporting, including the review of the annual results for the year ended 31 December 2013, and report to the Board of material issues, if any, and make recommendations to the Board. The Audit Committee consists of three independent non-executive Directors namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr. Lau Chi Kit. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2013.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

The annual results announcement is published on the website of the Company and the Stock Exchange (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2013 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and make available on the abovementioned websites in due course.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 31 March 2014

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