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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

RESULTS

The Board of Directors (the "Board") of Royale Furniture Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014 together with the comparative figures for the corresponding period in 2013. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

	Notes	2014 HK$'000 (Unaudited)	2013 HK$'000 (Unaudited)
REVENUE	4	**340,390**	372,448
Cost of sales		**(280,950)**	(307,190)
Gross profit		**59,440**	65,258
Gain on disposal of an associate	4	**21,563**	–
Other income and gains	4	**105**	1,329
Selling and distribution costs		**(93,392)**	(105,268)
Administrative expenses		**(36,041)**	(33,769)
Finance costs	6	**(14,769)**	(10,705)
Share of loss of associates		**(176)**	(2,933)
LOSS BEFORE TAX	5	**(63,270)**	(86,088)
Tax	7	**(2,768)**	–
LOSS FOR THE PERIOD		**(66,038)**	(86,088)
ATTRIBUTABLE TO:			
OWNERS OF THE COMPANY		**(65,793)**	(90,344)
NON-CONTROLLING INTEREST		**(245)**	4,256
		(66,038)	(86,088)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD			
Basic		**(4.72) cents**	(7.78) cents
Diluted		**(4.72) cents**	(7.78) cents

Details of the dividends payable and proposed for the period are disclosed in note 8 to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(66,038)**	(86,088)
Other comprehensive (loss)/income for the period		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange difference arising from translation of foreign operations	**(34,316)**	8,903
Available-for-sale assets:		
Changes in fair value	**(161)**	(11)
Total comprehensive loss for the period	**(100,515)**	(77,196)
Attributable to:		
Owners of the Company	**(97,767)**	(82,141)
Non-controlling interest	**(2,748)**	4,945
	(100,515)	(77,196)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Notes	**30 June 2014 *HK$'000* (Unaudited)**	31 December 2013 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,324,081**	1,371,755
Prepaid land lease payments		**205,356**	212,988
Goodwill		**67,730**	67,730
Intangible assets		**747**	1,316
Interest in associates		**7,471**	40,153
Available-for-sales investments		**2,274**	2,435
Total non-current assets		**1,607,659**	1,696,377
CURRENT ASSETS			
Inventories		**373,361**	361,014
Trade receivables	*10*	**39,373**	53,586
Prepayments, deposits and other receivables		**150,921**	139,676
Cash and cash equivalents		**148,095**	175,199
Total current assets		**711,750**	729,475
CURRENT LIABILITIES			
Trade payables	*11*	**90,425**	132,089
Other payables and accruals		**248,614**	249,410
Interest-bearing loans		**168,198**	137,768
Loans from a director		**26,808**	28,374
Loans from a non-controlling interests		**36,219**	36,019
Tax payable		**113,589**	110,819
Total current liabilities		**683,853**	694,479
NET CURRENT ASSETS		**27,897**	34,996
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,635,556**	1,731,373
NON-CURRENT LIABILITIES			
Interest-bearing loans		**232,526**	233,521
Deferred tax liabilities		**39,410**	39,410
Deferred government grant		**12,500**	12,807
Total non-current liabilities		**284,436**	285,738
Net assets		**1,351,120**	1,445,635
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**139,338**	139,338
Reserves		**1,110,100**	1,201,867
		1,249,438	1,341,205
Non-controlling interests		**101,682**	104,430
Total equity		**1,351,120**	1,445,635

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company											
	Issued share capital *HK$'000*	Share premium account *HK$'000*	Share option reserve *HK$'000*	Asset valuation reserve *HK$'000*	Available–for-sale investment revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*	Non–controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2013	116,138	761,230	1,312	138,062	(295)	6,310	164,361	467,678	6,388	1,661,184	114,896	1,776,080
Loss for the period	–	–	–	–	–	–	–	(90,344)	–	(90,344)	4,256	(86,088)
Other comprehensive income for the period:												
Change in fair value of available-for-sale investment, net of tax	–	–	–	–	(10)	–	–	–	–	(10)	–	(10)
Exchange differences on translation of foreign operation	–	–	–	–	–	–	8,214	–	–	8,214	689	8,903
Total comprehensive income for the period	–	–	–	–	(10)	–	8,214	(90,344)	–	(82,140)	4,945	(77,195)
Equity settled share option expense	–	–	3,000	–	–	–	–	–	–	3,000	–	3,000
At 30 June 2013	116,138	761,230	4,312	138,062	(305)	6,310	172,575	377,334	6,388	1,582,044	119,841	1,701,885
At 1 January 2014	**139,338**	**814,404***	**10,937***	**131,011***	**23***	**6,961***	**220,246***	**18,285***	**–**	**1,341,205**	**104,430**	**1,445,635**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(65,793)**	**–**	**(65,793)**	**(245)**	**(66,038)**
Other comprehensive income for the period:												
Change in fair value of available-for-sale investment, net of tax	**–**	**–**	**–**	**–**	**(161)**	**–**	**–**	**–**	**–**	**(161)**	**–**	**(161)**
Exchange differences on translation of foreign operation	**–**	**–**	**–**	**–**	**–**	**–**	**(31,813)**	**–**	**–**	**(31,813)**	**(2,503)**	**(34,316)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(161)**	**–**	**(31,813)**	**(65,793)**	**–**	**(97,767)**	**(2,748)**	**(100,515)**
Equity settled share option expense	**–**	**–**	**6,000**	**–**	**–**	**–**	**–**	**–**	**–**	**6,000**	**–**	**6,000**
At 30 June 2014	**139,338**	**814,404***	**16,937***	**131,011***	**(138)***	**6,961***	**188,433***	**(47,508)***	**–**	**1,249,438**	**101,682**	**1,351,120**

* *There reserve accounts comprises the consolidated reserves of HK$1,110,100,000 (31 December 2013: HK$1,201,867,000) in the condensed consolidated statement of financial position.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash flow used in operating activities	**(78,058)**	(41,793)
Net cash flow from investing activities	**25,086**	6,577
Net cash flow from/(used in) financing activities	**27,869**	(126,736)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(25,103)**	(161,952)
Cash and cash equivalents at beginning of period	**175,199**	408,471
Effect of foreign exchange rate changes, net	**(2,001)**	2,492
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**148,095**	249,011
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**148,095**	249,011

NOTES TO FINANCIAL STATEMENTS

30 June 2014

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations as of 1 January 2014, noted below:

HKFRS 9	*Financial Instruments*
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of the above new standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in these condensed consolidated interim financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the period (six months ended 30 June 2013: 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:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**340,390**	372,448
Other income and gains		
Gain on disposal of an associate*	**21,563**	–
Bank interest income	**105**	95
Others	**–**	1,234
	21,668	1,329
	362,058	373,777

* The Group disposed of our shareholding of an associate, being 26.6% of Jia Meng Holdings Limited at a consideration of approximately HK$54,264,000 on 27 June 2014. The net proceeds after commission, stamp duties and other costs was approximately HK$54,069,000 for loan repayment. The cost of investment on that date was approximately HK$32,506,000 (including the share of net asset value and goodwill on acquisition). The gain from disposal of the associate was approximately HK$21,563,000.

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of goods sold	**280,950**	307,190
Depreciation of items of property, plant and equipment	**43,773**	30,781
Amortisation of intangible assets	**569**	487
Minimum lease payments under operating leases in respect of land and buildings	**31,316**	43,235

6. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**13,586**	10,705
Interest on loan from a director	**120**	–
Interest on loan from non-controlling interests	**1,063**	–
	14,769	10,705

7. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current – PRC corporate income tax	**2,768**	–
Total tax charge for the period	**2,768**	–

Under Decree – Law no. 58/99/M, companies in Macau incorporated under that Decree – Law (referred to as the "58/99/M Companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. Sinofull Macau Commercial Offshore Limited, a subsidiary of the Group, is qualified as a 58/99/M company.

8. DIVIDENDS

The directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2014 (2013: Nil).

9. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,393,377,017 (six months ended 30 June 2013: 1,161,377,017) in issue during the period.

The calculation of diluted loss per share for the period ended 30 June 2013 and 2014 does not assume the conversion of the Company's outstanding share options as the exercise price is higher than the Company's share price.

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to ordinary equity holders of the Company, used in the basic and diluted loss per share calculations	**(65,793)**	(90,344)

	Number of shares	
	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	**1,393,377,017**	1,161,377,017

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non interest bearing.

10. TRADE RECEIVABLES (Continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
Within 30 days	**34,393**	43,719
31 days to 90 days	**4,437**	8,448
91 days to 180 days	**543**	1,419
	39,373	53,586

11. TRADE PAYABLES

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

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
Within 30 days	**42,309**	69,984
31 days to 90 days	**41,095**	53,307
91 days to 180 days	**3,891**	6,997
181 days to 360 days	**2,309**	601
Over 360 days	**821**	1,200
	90,425	132,089

12. COMMITMENTS

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

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
Approved, but not contracted for:		
The construction of land and buildings	**72,579**	73,000

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

China continued to experience its third consecutive year of slower economic growth during the first half of 2014. China's National Bureau of Statistics just reported a drop of 10.5% in new home sales for the first 7 months of 2014. In addition, the Central Government's relentless campaign on ridding government wastage and excesses and anti-graft policy has a severe negative impact on the consumer sentiment in luxury goods. All of these factors have an adverse effect on the demand of the Group's products during the first half of 2014.

For the six months' period ended, 30 June 2014, the Group's turnover decreased 8.6% to HK$340.4 million (2013: HK$372.4 million), as the Group continued to be negatively affected by the depressed demand and negative consumer sentiment. Gross profit dropped 8.9% to HK$59.4 million (2013: HK$65.3 million) whereas gross profit margin basically remained at the same level of 17.5% (2013: 17.5%).

During the period under review, selling and distribution expenses decreased 11.3% to HK$93.4 million (2013: HK$105.3 million), is mainly resulted from the cost cutting measures and reorganizing the Group's exhibition and promotion activities. Administration expenses increased 6.7% to HK$36.0 million (2013: HK$33.8 million), is mainly attributed to the additional non-cash share option expense of HK$3.0 million. The finance costs during the period have increased 38.0% to HK$14.8 million (2013: HK$10.7 million) due mainly to higher interest costs upon refinancing.

For the period ended 30 June 2014, the Group has recorded a loss attributable to equity holders of HK$65.8 million after accounting for the one-time gain of HK$21.6 million on disposal of an associate company (2013: HK$90.0 million). Excluding such a gain, the Group would have recorded a loss of HK$87.4 million.

Operational Review

During the period under review, the Group recorded declined sales due to slow demand of the Group's products and to a certain extent the lifting of some of the sales incentives temporarily provided for our franchisee distributors in the past two years for defending the Group's market share. The Group faces a dilemma of defending its market share necessitated by offering more discounts and maintaining its gross profit margin. The Group continues to leverage on its brand for which it has invested a great deal of resources in the past. Advertisement with the popular Ms. Lin Chi Ling as the Group's spokesperson reinforces its image among consumers especially in the 3rd and 4th tier cities, which is expected to facilitate future sales in these cities.

Inventory

At the end of the period, the Group's inventory has increased 3.4% to HK$373.4 million from 31 December 2013. The modest increase was caused by the launch of a number of new product series. The overall inventory level remained high due partly to the seasonal factor.

New Plant Facilities

The Tianjin plant which has commenced a small scale operation since the end of 2013, operated at a very low capacity level in the first half of 2014. The Tianjin plant was originally intended to produce high-end furniture. However, in response to the current depressed market situation of high-end furniture, management decided to suspend the production of the Tianjin plant in July 2014. The Group is reviewing various options for how to best utilize its plant resources. For the period under review, the construction of Nanchang plant is still in progress but slowly.

Prospects

The Group's operating environment will remain difficult in the second half of 2014 due to dampened demand as a result of the continuous austerity measures by the Chinese Government, overcapacity in the furniture industry and increasing manufacturing costs. The Group will continue its efforts to reduce costs and improve operating efficiency, broaden its sales channels in light of fierce competition and seek to deploy its resources in the most effective ways. While the short term remains tough for our operations, we are optimistic towards the longer term as China still enjoys year on year growth rates exceeding 7%. In particular, the urbanization policy remains intact and the relaxation on the "One Child" policy would spur growth of the average family size across China and, hence, demands for furniture products.

Liquidity And Financial Resources

The Group maintained cash and bank balances of HK$148.1 million as at 30 June 2014 (31 December 2013: HK$175.2 million).

As at 30 June 2014, in addition to the interest-bearing loans amounted to HK$400.7 million (31 December 2013: HK$371.3 million), the Group has loans from a director and non-controlling interests in a total of HK$63.0 million (31 December 2013: HK$64.4 million).

As at 30 June 2014, the current ratio (current assets/current liabilities) was 1.04 times (31 December 2013: 1.05 times) and the net current assets was HK$27.9 million (31 December 2013: HK$35.0 million).

Employment and Remuneration Policy

The total number of employees of the Group as at 30 June 2014 was approximately 3,918 (2013: 3,836). 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.

Code on Corporate Governance Practices

Save as disclosed below, 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 period.

In compliance with 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. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Nonetheless, the Company has appointed Mr. Tse Kam Pang as both its chairman and chief executive officer, following the departure of the ex-CEO in 2012. The Board believes that vesting the roles of the chairman and the chief executive officer in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board has also appointed Mr. Chang Chu Fai Johnson Francis, as vice chairman, and believes that the balance of power and authority is adequately ensured by the operation of the Board, which comprises experienced and technical individuals with a sufficient number thereof being independent non-executive directors.

Audit Committee Review

The accounting information given in this interim report has not been audited but has been reviewed by the audit committee of the Company. The audit committee has not undertaken independent audit checks.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted for compliance by the directors the code of conduct for dealings in securities of the Company as set out in Appendix 10-Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Having made specific enquiry to all the directors of the Company, the directors confirmed that they had complied with the Model Code for the period ended 30 June 2014.

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 30 June 2014.

Publication of Interim Report

The 2014 interim report of the Company, which contains condensed consolidated financial statements for the six months ended 30 June 2014, and all other information required under Appendix 16 of the Listing Rule will be despatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.todayir.com/en/showcases.php?code=1198) in due course.

By order of the Board
Royale Furniture Holdings Limited
Tse Kam Pang
Chairman and Chief Executive Officer

Hong Kong, 29 August 2014

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