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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 2015

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 2015 together with the comparative figures for the corresponding period in 2014. 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 2015

		2015	2014
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	4	308,007	340,390
Cost of sales		<u>247,298</u>	<u>(280,950)</u>
Gross profit		60,709	59,440
Gain on disposal of an associate	4	–	21,563
Other income and gains	4	202	105
Selling and distribution expenses		(99,237)	(93,392)
Administrative expenses		(41,092)	(36,041)
Finance costs	6	(13,610)	(14,769)
Share of loss of associate		<u>(418)</u>	<u>(176)</u>
LOSS BEFORE TAX	5	(93,446)	(63,270)
Income tax expenses	7	<u>(1,210)</u>	<u>(2,768)</u>
LOSS FOR THE PERIOD		<u><u>(94,656)</u></u>	<u><u>(66,038)</u></u>
ATTRIBUTABLE TO:			
OWNERS OF THE COMPANY		(85,901)	(65,793)
NON-CONTROLLING INTEREST		<u>(8,755)</u>	<u>(245)</u>
		<u><u>(94,656)</u></u>	<u><u>(66,038)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD			
Basic		<u><u>(5.90) cents</u></u>	<u><u>(4.72) cents</u></u>
Diluted		<u><u>(5.90) cents</u></u>	<u><u>(4.72) cents</u></u>

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 2015

	2015 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i> (Unaudited)
Loss for the period	(94,656)	(66,038)
Other comprehensive loss for the period		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange difference arising from translation of foreign operations	–	(34,316)
Available-for-sale assets:		
Changes in fair value	<u>(111)</u>	<u>(161)</u>
Total comprehensive loss for the period	<u>(94,767)</u>	<u>(100,515)</u>
Attributable to:		
Owners of the Company	(86,012)	(97,767)
Non-controlling interest	<u>(8,755)</u>	<u>(2,748)</u>
	<u>(94,767)</u>	<u>(100,515)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2015

		30 June 2015	31 December 2014
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,368,880	1,407,153
Prepaid land lease payments		200,447	202,911
Goodwill		67,730	67,730
Intangible assets		558	897
Interest in associate		6,757	7,175
Available-for-sales investments		2,030	2,141
Total non-current assets		1,646,402	1,688,007
CURRENT ASSETS			
Inventories		284,434	287,496
Trade receivables	<i>10</i>	32,574	26,509
Prepayments, deposits and other receivables		86,920	66,871
Available-for-sale investment		–	25,426
Pledged deposits		7,495	7,495
Cash and cash equivalents		64,408	128,355
Total current assets		475,831	542,152
CURRENT LIABILITIES			
Trade payables	<i>11</i>	64,177	78,076
Other payables and accruals		210,312	205,053
Interest-bearing bank and other borrowings		292,551	283,341
Tax payable		114,080	112,870
Total current liabilities		681,120	679,340
NET CURRENT LIABILITIES		(205,289)	(137,188)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,441,113	1,550,819

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2015

	30 June 2015 <i>Notes</i> HK\$'000 (Unaudited)	31 December 2014 <i>HK\$'000</i> (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,441,113</u>	<u>1,550,819</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	132,813	213,832
Loan from non-controlling interests	33,750	37,216
Deferred tax liabilities	37,435	37,435
Deferred government grant	<u>12,233</u>	<u>12,233</u>
Total non-current liabilities	<u>216,231</u>	<u>300,716</u>
Net assets	<u><u>1,224,882</u></u>	<u><u>1,250,103</u></u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	167,138	139,338
Reserves	<u>976,270</u>	<u>1,020,536</u>
	1,143,408	1,159,874
Non-controlling interests	<u>81,474</u>	<u>90,229</u>
Total equity	<u><u>1,224,882</u></u>	<u><u>1,250,103</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company											
	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Asset valuation reserve <i>HK\$'000</i>	Available- for-sale investment revaluation reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
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 loss 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 loss 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
At 1 January 2015	139,338*	814,404*	23,801*	123,960*	173*	7,516*	177,547*	(126,865)*	–	1,159,874	90,229	1,250,103
Loss for the period	–	–	–	–	–	–	–	(85,901)	–	(85,901)	(8,755)	(94,656)
Other comprehensive loss for the period:												
Change in fair value of available-for-sale investment, net of tax	–	–	–	–	(111)	–	–	–	–	(111)	–	(111)
Total comprehensive loss for the period	–	–	–	–	(111)	–	–	(85,901)	–	(86,012)	(8,755)	(94,767)
Issue of shares [△]	27,800	37,847	–	–	–	–	–	–	–	65,647	–	65,647
Equity settled share option expense	–	–	3,899	–	–	–	–	–	–	3,899	–	3,899
At 30 June 2015	167,138	852,251*	27,700*	123,960*	62*	7,516*	177,547*	(212,766)*	–	1,143,408	81,474	1,224,882

* These reserve accounts comprise the consolidated reserves of HK\$976,270,000 (31 December 2014: HK\$1,020,536,000) in the condensed consolidated statement of financial position.

△ Issue and allotment of 278,000,000 new shares at HK\$0.24 per share on 22 May 2015 pursuant to the subscription agreement dated 10 May 2015 following the placing of 278,000,000 shares pursuant to the placing agreement dated 10 May 2015, as disclosed in the announcement of the Company dated 10 May 2015.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	2015 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i> (Unaudited)
Net cash flow used in operating activities	(38,799)	(78,058)
Net cash flow (used in)/from investing activities	(1,910)	25,086
Net cash flow (used in)/from financing activities	<u>(23,238)</u>	<u>27,869</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,947)	(25,103)
Cash and cash equivalents at beginning of period	128,355	175,199
Effect of foreign exchange rate changes, net	<u>—</u>	<u>(2,001)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>64,408</u>	<u>148,095</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>64,408</u>	<u>148,095</u>

NOTES TO FINANCIAL STATEMENTS

30 June 2015

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2015 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 2014.

The Group recorded a consolidated net loss of HK\$94,656,000 (six months ended 30 June 2014: HK\$66,038,000) for the six months ended 30 June 2015 and as at that date, the Group recorded net current liabilities of HK\$205,289,000 (31 December 2014: HK\$137,188,000). In view of these circumstances, the directors of the Company have given consideration to the future liquidity, future performance of the Group, the existing banking facilities and other available sources of finance in assessing whether the Group will have sufficient cash flows to continue as a going concern. Based on the management estimation of the future cash flows of the Group, the directors of the Company believe that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The adoption of the new standards and interpretations has had no material effect on these interim condensed consolidated 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 2014: 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	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	308,007	340,390
Other income and gains		
Gain on disposal of an associate*	–	21,563
Bank interest income	11	105
Others	191	–
	202	21,668
	308,209	362,058

* 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	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of goods sold	247,298	280,950
Depreciation of items of property, plant and equipment	40,183	43,773
Amortisation of intangible assets	2,465	569
Minimum lease payments under operating leases in respect of land and buildings	9,324	31,316

6. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans	12,496	13,586
Interest on loan from a director	–	120
Interest on loan from non-controlling interests	1,114	1,063
	13,610	14,769

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 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	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current – PRC corporate income tax	1,210	2,768
Total tax charge for the period	1,210	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 2015 (six months ended 30 June 2014: 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 1,454,813,481 (six months ended 30 June 2014: 1,393,377,017) in issue during the period.

The calculation of diluted loss per share for the six months ended 30 June 2014 and 2015 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	
	2015	2014
	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	<u>(85,901)</u>	<u>(65,793)</u>
	Number of shares	
	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	<u>1,454,813,481</u>	<u>1,393,377,017</u>

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 2015 <i>HK\$'000</i> (Unaudited)	31 December 2014 <i>HK\$'000</i> (Audited)
Within 30 days	27,630	22,389
31 to 90 days	702	2,193
91 to 180 days	2,910	1,277
Over 180 days	1,332	650
	32,574	26,509

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 2015 <i>HK\$'000</i> (Unaudited)	31 December 2014 <i>HK\$'000</i> (Audited)
Within 30 days	57,639	30,783
31 days to 90 days	3,317	29,780
91 days to 180 days	450	13,617
181 days to 360 days	538	1,690
Over 360 days	2,233	2,206
	64,177	78,076

12. SHARE OPTION SCHEME

According to the scheme limit of the 2012 Scheme as refreshed on the annual general meeting of the Company held on 6 June 2014, the Company may further grant 139,337,701 (31 December 2014: 139,337,701) share options, representing approximately 8.34% (31 December 2014: 10%) of the issued share capital of the Company as at 30 June 2015.

13. COMMITMENTS

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

	30 June 2015 <i>HK\$'000</i> (Unaudited)	31 December 2014 <i>HK\$'000</i> (Audited)
Approved, but not contracted for:		
The construction of land and buildings	<u>28,090</u>	<u>30,000</u>

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

14. EVENTS AFTER THE REPORTING PERIOD

As disclosed in the announcement dated on 2 June 2015, an indirect wholly-owned subsidiary of the Company entered into agreement with an independent third party to dispose of a property situated in Hong Kong at a consideration of HK\$70,000,000 and carrying value of the property of approximately HK\$46,446,000 as at 30 June 2015. It is estimated that completion of the disposal shall take place on or before 16 September 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first half of 2015, China's economic growth rate has remained sluggish as a result of which the business environment continues to be challenging. In the furniture industry, the demand for the Group's products has not returned to the normal level.

For the six months' period ended 30 June 2015, the Group's turnover decreased by 9.5% to HK\$308.0 million (2014: HK\$340.4 million), as the Group continued to be negatively affected by the depressed demand and weak consumer sentiment. Gross profit rose by 2.13% to HK\$60.7 million (2014: HK\$59.4 million) whereas gross profit margin increased by 2.2 percentage points to 19.7% (2014: 17.5%).

During the period under review, selling and distribution expenses increased by 6.3% to HK\$99.2 million (2014: HK\$93.4 million), which was mainly resulted from store closures expenses. Administration expenses increased by 14.0% to HK\$41.1 million (2014: HK\$36.0 million), which was mainly due to expenses incurred in the Tianjin plant. The finance costs during the period decreased by 7.8% to HK\$13.6 million (2014: HK\$14.8 million) due to reduced borrowings.

For the period ended 30 June 2015, the Group has recorded a loss attributable to equity shareholders of HK\$85.9 million (2014: HK\$65.8 million).

In May 2015, the Company completed a top-up placement and subscription of 278,000,000 shares at HK\$0.24 per share. The net proceeds totalled approximately HK\$65 million, part of which was used for loan repayment and the remaining as additional working capital.

On 17 June 2015, Mr. Tse Kam Pang, the Group's major shareholder and founder, who is also the Chairman and CEO of the Group, proposed a partial cash offer to acquire 220,000,000 Shares at the price of HK\$0.43 per Share. The composite offer document for the Offer is expected to be despatched in early September. This offer reflected the confidence and support by Mr Tse in the future of the Group.

OPERATIONAL REVIEW

During the period under review, the Group recorded lower sales turnover owing to slow demand. The Group deployed various measures in response to the declined sales, including implementation of various cost cutting measures in order to cope with the escalating labour and manufacturing costs. To streamline its operations and productions, the Group closed down its non-performing sales outlets. The Group focused more on strategic locations so as to facilitate sales in these regions. Besides, the Group continued the engagement of Ms. Lin Chi Ling as the spokesperson thereby reinforcing our brand equity.

PROSPECTS

The second half of 2015 will be another challenging six months for our Group. Despite the current depressed market situation, the Group will continue to strike to improve the sales turnover. The Group will restructure its product mix as necessary in response to market changes. Revision of cost-cutting measures and consolidation of distribution channels will continue as a matter of course. In spite of China's sluggish economic conditions, the Group remains cautiously optimistic towards the furniture market in the longer term. With the implementation of the urbanisation policy and loosening measures of "One Child" policy, demands for new and bigger homes are expected to increase, thus stimulating the needs for furniture.

Liquidity and Financial Resources

The Group maintained cash and bank balances of HK\$64.4 million as at 30 June 2015 (31 December 2014: HK\$128.4 million).

As at 30 June 2015, in addition to the interest-bearing bank and other borrowings amounted to HK\$425.4 million (31 December 2014: HK\$497.2 million), the Group has loans from non-controlling interests in a total of HK\$33.8 million (31 December 2014: HK\$37.2 million).

As at 30 June 2015, the current ratio (current assets/current liabilities) was 0.70 times (31 December 2014: 0.80 times) and the net current liabilities was HK\$205 million (31 December 2014: HK\$137 million).

Employment and Remuneration Policy

The total number of employees of the Group as at 30 June 2015 was approximately 2,832 (2014: 3,918). 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 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 of the Listing Rules: 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 2015.

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 2015.

Publication of Interim Report

The 2015 interim report of the Company, which contains condensed consolidated financial statements for the six months ended 30 June 2015, 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, 28 August 2015

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