Universiade SHENZHEN 2011

Royal FURNITURE 皇朝傢俬

Sponsor of the category of life and office furniture in the 26th Universiade SHENZHEN

ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

2009 Annual Report

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*
Mr. Zenglejin
Mr. Lam Toi

Independent Non-Executive Directors

Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong

AUDIT COMMITTEE

Mr. Yau Chung Hong *(Chairman)*
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis

REMUNERATION COMMITTEE

Mr. Chang Chu Fai J. Francis *(Chairman)*
Dr. Donald H. Straszheim
Mr. Yau Chung Hong

COMPANY SECRETARY

Mr. Chan Wing Kit, CPA

AUDITORS

Ernst & Young

SOLICITORS

DLA Piper Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 204, 2/F
Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

1198

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual results of Royale Furniture Holdings Limited ("Royale Furniture" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2009.

The two Chinese characters that make up the word "Crisis" literally means danger and opportunity. This certainly was the case for the Group in 2009. After the global financial crisis erupted in late 2008, the following year presented challenges and opportunities in equal measure.

The first half of 2009 was highly challenging due to uncertainties surrounding economic conditions in China and around the world. Sales revenue decreased almost 12% during the period compared to that in 2008 even after we factored out a one-off transaction relating to the Beijing 2008 Olympic Games. Fortunately, the massive stimulus plan implemented by the Chinese central government in 2009 started to take effect during the second half of the year. During this time, sales revenue rebounded quickly and increased 18% compared to that of 2008, catching up with the shortfall experienced in the first half of 2009.

Overall, we were able to achieve year-on-year turnover growth of 5.0%, which excludes a one-off transaction relating to the Beijing 2008 Olympic Games. Profit attributable to equity holders amounted to HK$130.4 million, a record high since inception of the Group.

The Board of Directors recommended the payment of a final dividend of HK8.5 cents per share for the year ended 31 December 2009.

Management for Quality Growth

The financial crisis that started in late 2008 provided the Group with an opportunity to carry out significant restructuring of management. Our focus shifted to nurturing top tier franchisee distributors and self-operating stores, as well enhancing the profitability of each store, rather than increasing the number of stores. The increased average revenue per store and gross profit margin in the year proved the move to be successful.

A series of cost control measures were implemented, aimed at cutting direct material and labour costs. The Group benefited from reductions in raw material prices due to lower global demand and was able to significantly cut material wastage as well. We also recruited more skilled workers, enhancing production efficiency. These cost saving steps helped boost gross profit margin, in turn contributing to gains in net profit margin. Together with substantial decrease in selling and administrative expenses, vastly improved profitability was achieved.

Over the past several years, we have also been reorganising some of our product divisions, such as the sofa division, in order to assert better control of product design and production. Such efforts began to bear fruit as we saw a marked improvement in the quality of our sofa series. The sofa division subsequently became a contributor to the Group's profit growth in 2009.

Chairman's Statement

Leveraging Strong Brand Value

"Royal Furniture" is recognized as a premium brand across China, especially following the Group's sponsorship of the Beijing 2008 Olympic Games. In addition to ongoing marketing and promotional campaigns, our products are able to be priced at premium levels. Capitalising on the value of our brand, we launched a premium furniture series in 2009, known as Phoenix. Drawing inspiration from traditional palace styles, the furniture is meticulously crafted from the finest hardwood and craftsmanship. This product series is expected to contribute to our future growth and reinforce "Royal Furniture" as a premium brand in the market.

Future Expansion

In light of anticipated growth of the Chinese economy in the future, a robust property market and rapid urbanisation of the country, our management team is confident that the Group will be able to capture vast opportunities ahead. Despite the recently implemented austerity policies of the Chinese central government to contain the potential property market bubble in the first tier cities such as Beijing and Shanghai, we do not foresee a negative effect toward the property market in the rural county townships which we expect to be a major source of our growth in the coming years. Naturally, we will continue the course of growth taken in all segments of the furniture market as it is still considered to be highly fragmented.

With the restructuring of management completed, the Group is well equipped to expand in the coming years. To further enhance our management capability, and ultimately achieve long-term growth, we will be actively recruiting graduates from major universities across China to be trained under our management trainee program. Expanding production outside of Guangdong Province to better cope with growing market demand will also be evaluated. Leveraging our strong brand name, we will continue to strengthen our sales network in anticipation of increasing demand for elegant furniture.

Appreciation

On behalf of the Board, I would like to extend my sincere gratitude to the entire management team, business partners, franchisees and employees of the Group. The growth of Royale Furniture would not have been possible without their dedication and contributions. I would also like to express my appreciation to our shareholders, investors, customers and suppliers for their ongoing support.

TSE Kam Pang
Chairman
Hong Kong, 23 April 2010

Dividend

The Board recommends the payment of a final dividend of HK8.5 cents per share for the year ended 31 December 2009 (2008: HK1.0 cent). Together with the interim dividend of HK1.6 cents per share (2008: HK1.2 cents), the total dividend for the year ended 31 December 2009 is HK10.1 cents per share (2008: HK2.2 cents). Subject to the approval of the shareholders at the forthcoming Annual General Meeting ("AGM"), the final dividend will be distributed on or about 8 June 2010 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 1 June 2010.

Closure of the Register of Members

The Register of Members of the Company will be closed from 25 May 2010 to 1 June 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend and attending the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Registration Office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 24 May 2010.

Financial Review

During the year under review, the Group's revenue increased by 5.0% to HK$688 million from HK$655 million which is excluding the one-off transaction of a sale valued at HK$136 million to the Beijing 2008 Olympic Games from the 2008 total revenue of HK$791 million. The overall gross profit margin has improved from 30.6% to 34.2% year-on-year due to better product planning and pricing, stringent cost control measures on direct material and labour and reductions in raw material prices. In addition, selling expenses dropped sharply from HK$195 million to HK$106 million and administrative expenses also declined from HK$68 million to HK$57 million. These drastic expense reductions were the result of management restructuring implemented in early 2009 and the one-off marketing expenses totaling HK$55 million incurred for the Beijing 2008 Olympic Games in the previous year. The Group has achieved a profit of HK$130 million for the year under review compared to a loss of HK$90 million in 2008 (a profit of HK$22 million excluding the one-time write-off of goodwill).

Management Discussion & Analysis

Business Review

Sales Network Management

During the year, the Group has adjusted its strategy in managing its sales network through an increased focus on improving the profitability of its existing franchisees and self-operating stores, and away from merely expanding the number of its stores. The Group's total number of stores decreased slightly from 1,400 in 2008 to 1,378 in 2009, while the average revenue per store increased by 6.8% to approximately HK$0.5 million. This strategic shift has been reflected in optimising the product mix of the store outlets which has resulted in better pricing structure and an increased gross profit margin. The gross profit margin of sales to franchisees and others increased slightly from 29.5% to 30.5%, whereas that of the self-operating stores rose sharply from 35.2% in 2008 to 46.9% in 2009.

Brand Management

With the success of the Group's 2008 Olympic project in concert with its sustained brand building efforts over the years, the "Royal Furniture" brand is recognised and respected throughout China. Hence, during the year, the Group has adjusted its advertising strategy and became more selective in advertising in media channels to suit its various targeted market segments. This strategy has proven to be very effective in cutting cost while generating an optimal promotional response.

Product Development

As China's middle-class continues its rapid expansion and their disposable incomes continue rising in parallel with their ever sophisticated tastes, demand for high quality furniture is also strengthening. The Group continued to develop new series of products to address this trend and meet the market demand. During the year, the Group joined forces with a major sub-contractor in Beijing in a joint venture to design and produce furniture crafted from the finest hardwood. Becoming an effective subsidiary of the Group in January 2010, the joint venture has launched the hardwood products under the Group's Phoenix series. This furniture series, initially conceived to be designed in elegant Chinese palace style, will add a classical Western palace style line to capture the increasing number of more discriminating customers. The Group expects the series to generate respectable sales revenues as it becomes more widely available throughout the Royal Furniture's sales network. Similarly, the Group's sofa division has accelerated the launch of new products thereby anticipating and satisfying the demands of the market on a timely basis.

Production Efficiency

In early 2009, the Group reorganised its production resources and implemented new management policies by setting production targets for its production units while providing incentives to boost productivity and lower costs. This initiative has proven highly effective with the production units reducing raw material and labour cost while also enhancing the workflow, yielding higher productivity and contributing to improved cost-efficiency of the Group's operations.

Liquidity and Financial Resources

The Group maintained a cash and cash equivalent balance of HK$114 million as at 31 December 2009 (2008: HK$40 million). The Group is principally financed by cash flow from operating activities. The Group believes that cash flow generated from its internal operations are sufficient to meet its funding requirements of operating the Group's business.

As at 31 December 2009, except for the interest bearing loans amounted to HK$26 million (2008: HK$39 million), the Group had no other bank borrowings and contingent liabilities. As at the year-end, the total debt to equity ratio of the Group was 40.1% (2008: 70.7%). This represents a very low gearing ratio. Approximately 33.8% of the Group's cash was denominated in Renminbi with the remaining balance denominated in Hong Kong Dollars. The exposure to currency exchange rate fluctuation has been minimal.

As at 31 December 2009, the liquidity of the Group has vastly improved as its current ratio (current assets to current liabilities) has increased to 1.73 (2008: 0.97) and the net current liabilities of HK$8.8 million in 2008 have become net current assets of HK$163.6 million.

Prospects

After more than an entire year of implementing the new policy initiatives to boost its operational efficiency, the Group is confident it can move forward in the years ahead to make the most out of the growth opportunities presented by the rapidly expanding Chinese consumer market. Reinforced by the robust property market and massive urbanisation of the country, the prospects for continued expansion of the furniture industry and the Group's business appear to be bright. Although the Chinese central government has recently imposed austerity policies to contain the potential property market bubble in the major cities of China, such polices are not expected to affect our targeted growth area of more than 2,000 rural county townships across China. The Group currently has outlets in about 600 of these county townships, a penetration rate of only 30%. Thus there is plenty of scope for growth through enhancing the sales productivity in these 600 township outlets and extending our sales reach to the remaining 1,400 townships.

Management Discussion & Analysis

Strengthened by the restructuring and new management policies, the Group is positioned to expand in the coming year. Towards that end it will actively recruit university graduates from several major universities in China for the in-house management trainee programme in a bid to build up its operational management capability in the years ahead. It is also evaluating expansion of its production facilities outside of Guangdong Province to better cope with the growing market demand throughout China.

By virtue of its past involvement in the Beijing 2008 Olympic Games and the exclusive contract to supply all furniture products to the 26th Summer Universiade to be held at Shenzhen in 2011, the Group expects the "Royal Furniture" brand continues to be valued and recognised throughout China. The Group intends to leverage its brand recognition and continue its efforts to boost the sales network and meet the anticipated rise in sales for elegant furniture.

Corporate Governance Report

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

A. The Board

Responsibilities

The Board is responsible for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Directors should make decisions objectively in the interests of the Company.

While day-to-day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management, the Independent Non-Executive Directors are responsible for:

(a) participating in board meetings of the Company to bring an independent judgement to bear on issue of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interest arise;

(c) serving on the audit, remuneration and other governance committees, if invited; and

(d) scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

The Board provides leadership, approves major policies, reviews and monitors the business performance of the Group, approves major funding and investment proposals, as well as the financial statements of the Group. Day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management.

Chairman and Chief Executive Officer

The roles of Chairman of the Board and Chief Executive Officer of the Company are segregated. The Chairman of the Board is Mr. Tse Kam Pang, an Executive Director, who is responsible for leadership and effective running of the Board. The Chief Executive Officer of the Company is Mr. Ma Gary Ming Fai, an Executive Director, who is responsible for day-to-day management, administration and operation of the Company.

Board Composition

During 2009, the Board comprised six directors as below.

Executive Directors:
Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*
Mr. Lam Toi

Independent non-executive Directors:
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong

The biographical details of directors of the Company (the "Director") and other senior management are disclosed in the section headed "Management Profile" on Pages 16 to 17 in this Annual Report.

Board meeting and procedure

Regular Board meetings are held at least four times a year. It is also held as and when necessary to discuss significant transactions, including issuance of securities, material acquisitions, and connected transactions, if any. Other than regular Board meetings, Directors also meet periodically to discuss matters of particular interest. There were four Board meetings held and the details of the Directors' individual attendance record in the year are as follows:

Directors Attendance

Name	Number of Board meetings held during the Director's term of office in 2009	Number of meetings attended
Mr. Tse Kam Pang *(Chairman)*	4	4
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*	4	4
Mr. Lam Toi	4	4
Dr. Donald H. Straszheim	4	4
Mr Chang Chu Fai J. Francis	4	4
Mr. Yau Chung Hong	4	4

Board members are provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with Code provision A1.3 of the CG Code, at least 14 days notice have been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meeting are sent to all Directors within reasonable time prior to the meetings. None of the members of the Board has any relationship (including financial, business, family or other material or relevant relationships) between each other. Directors are free to contribute alternative views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Full minutes are prepared after the meetings and will be endorsed in the subsequent Board meeting.

All non-executive Directors (including independent non-executive Directors) of the Company have been re-appointed for a term of three years on 7 June 2009. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

Model Code For Securities Transaction By Directors

The Company has adopted for compliance by the directors and relevant employees the code of conduct for dealings in securities of the Company as set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), of the Listing Rules. The Company, having made specific enquiry, confirms that members of the Board complied throughout the year with the Model Code. Senior managers who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

B. Board Committees

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. All committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of three independent non-executive Directors namely Mr. Yau Chung Hong, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr. Chang Chu Fai J. Francis. The Audit Committee meets regularly, normally two times a year, with the senior financial management and meets with external auditor once a year for final result reviews.

The main duties of the Audit Committee include the following:

1. To monitor the integrity of the annual and interim reports as well as to review significant financial reporting judgments before submission to the Board and to report to the Board.

2. To review the relationship with the external auditor.

3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

There were two meetings of the Audit Committee held during 2009. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	Number of Audit Committee meetings held in 2009	Number of meetings attended
Mr. Yau Chung Hong *(Chairman)*	2	2
Mr Chang Chu Fai J. Francis	2	2
Dr. Donald H. Straszheim	2	2

During 2009, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2008 and the interim results for the six months ended 30 June 2009 before they were submitted to the Board for approval. The Audit Committee met with the external auditors to discuss the results of their audit for the year ended 31 December 2008. The Committee approved the auditor's remuneration and carried out assessment of their independence. During 2009, there was no disagreement between the Board and Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code on 27 August 2005. The Remuneration Committee is chaired by Mr. Chang Chu Fai J. Francis, and comprising two other members, namely Dr. Donald H.Straszheim and Mr. Yau Chung Hong. All the members of the Remuneration Committee are independent non-executive Directors of the Company. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are independent non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices and ensure no Director involved in deciding his own remuneration.

There was one meeting of the Remuneration Committee held in 2009. Details of the members attendance record in the year are as follows:

Directors Attendance

Name	Number of Remuneration Committee meetings held in 2009	Number of meetings attended
Mr Chang Chu Fai J. Francis *(Chairman)*	1	1
Mr. Yau Chung Hong	1	1
Dr. Donald H. Straszheim	1	1

Details of the remuneration of each Director for 2009 is set out in the Note 8 to this Annual Report.

Nomination Committee

The Company does not have a nomination committee, and the power to nominate or appoint additional Directors is vested on the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a Director of the Company in accordance with the articles of association of the Company and the laws of Hong Kong and the Cayman Islands.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically will follow the provisions of the articles of association of the Company which empowers the Board from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position. There were no changes in directorship during 2009.

All newly appointed Director will be provided an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Group and of the responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

C. Accountability and Audit

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts ended 31 December 2009, have applied them consistently with previous financial periods. The statement of our Auditors about their responsibility on the accounts is included in the Independent Auditors' Report. In support of the above, the accounts presented to the Board have been reviewed by the Executive Directors. For the annual reports and accounts, the Company's financial department is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 26 and 27 of this Annual Report.

External Auditors' Remuneration

The Company engages Ernst & Young as its external auditor. An analysis of remuneration in respect of audit is included in the Notes to the Accounts in this Annual Report. No non-audit services has been provided by the external auditors during the year under review.

Internal Controls

The internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The internal control framework also provides for identification and management of risk.

The internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2009 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

D. Communication with Shareholders

The AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained at each general meeting. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting. Results on any voting conducted by poll will be published in an announcement to be issued on the business day following the general meeting. Registered shareholders are notified by post of the AGM. Any registered shareholder is entitled to attend and vote at the AGM, provided that his/ her/ its shares have been fully paid up and recorded in the register of the members of the Company. Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

E. Investor Relations

The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. In the year under review, the Company also communicates with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail: info@chitaly.com.hk
Telephone number: (852) 2636-6648
By post: Room 204, 2/F Wing On Plaza
62 Mody Road
Tsim Sha Tsui, Kowloon
Hong Kong
Attention: Public Relationship

Management Profile

Directors

Executive Directors

Mr. TSE Kam Pang, aged 55, is the chairman of the Company. He founded the Group in 1997 and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Prior to the founding of the Group, Mr. Tse previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. Mr. Tse has over 20 years of experience in the international trade and China trade business. Mr. Tse is also a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. MA Gary Ming Fai, aged 46, is the Chief Executive Officer of the Company. He is a member of the Institute of Chartered Accountants of Ontario in Canada and has worked for several years with an international accounting firm. Mr. Ma received his bachelor of commerce degree from the University of Calgary, Canada in 1985. Mr. Ma is presently the Executive President of Guangdong Furniture Chamber of Commerce and a committee member of International Furniture Association. Mr. Ma joined the Group in 2002.

Mr. ZENG Le Jin, aged 38, graduated from the Guangdong Business College with a bachelor degree of metropolitan economy and management majoring in statistics. He joined the main subsidiary of the Company in China during 1999 and is responsible for the internal audit of the operation of the Company's major subsidiaries in China and advises on the development of their policies. He has over 10 years of experience in enterprise management.

Mr. LAM Toi, aged 47, is the co-founder of the Group. Mr. Lam is mainly responsible for product research and development of the Group. Before founding the Group in 1997, Mr. Lam has over 22 years of experience in China trade and furniture business. Mr. Lam is presently the association honourary chairman of the Furniture and Lighting All-China Federation of Industry and Commerce.

Independent Non-executive Directors

Dr. Donald H. Straszheim, aged 68, is Senior Managing Director and Head of China Research for ISI Group. ISI Group is an independent broker-dealer, headquartered in New York City, specializing in research, sales and trading, primarily for large global institutional money managers. Straszheim works out of Los Angeles, CA. He holds a B.S., M.S. and Ph.D. from Purdue University, is a visiting Scholar at UCLA's Anderson School of Management, and a regular writer and commentator on economic, business and financial issues in the global media, and is a recognized China specialist. He has testified before the U.S. Congress on various economic issues. For many years he was Managing Principal of Straszheim Global Advisors, Inc., an economics, business, financial markets and public policy consultancy founded in 2001 with a focus on China. The firm had offices in America and China. From 1985 to 1997, Dr. Straszheim was the Chief Economist of Merrill Lynch and Co. ("Merrill Lynch"), in New York, guiding its world-wide economic research effort and serving as its primary economic spokesperson. He has also been Vice Chairman of Roth Capital Partners, Chief Economist at Wharton Econometrics at the University of Pennsylvania, and Chief Economist of Weyerhaeuser Company.

Management Profile

Mr. Chang Chu Fai J. Francis, aged 55, was appointed an Independent Non-Executive Director of the Company on 1 July 2005. He holds a Bachelor's Degree in Commerce from Concordia University in Montreal, Canada since 1976 and a Master's Degree in Business Administration from York University in Toronto, Canada since 1977. He has over thirty-two years of experience in banking, corporate finance, investment and management and has held various executive positions at financial institutions and directorships of listed companies. Mr. Chang is currently the Managing Director of Ceres Consultancy Limited and a registered person under the Securities and Futures Ordinance. He is also the deputy chairman and an independent non-executive director of Quality HealthCare Asia Limited; and an independent non-executive director of Tian An China Investments Company Limited and APAC Resources Limited. He was previously the chairman and an executive director of Trasy Gold Ex Limited, an executive director of China Financial Leasing Group Limited and the managing director of Ceres Capital Limited.

Mr. Yau Chung Hong, aged 40 is an Executive Director of Sino Katalytics Investment Corporation (stock code 2324) and an Independent Non-Executive Director of China Zenith Chemical Group Limited (stock code 362). Mr. Yau obtained a bachelor degree in Accountancy from the Hong Kong Polytechnic University in 1993. He is an associated member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Yau has extensive experience and knowledge in accounting and financial management. He joined the Group in 2005.

Senior Management

Mr. PANG Jim, aged 49, is the Chief Financial Officer of the Group. He has more than 25 years of professional experience in corporate finance and accounting. Most recently before joining Royale Furniture, he has been a partner and director of a private equity fund management and advisory firm registered in Tianjin. Prior to this, he was an investment director in the Kingsway Group, a Hong Kong-listed investment bank. He was also the corporate treasurer of NASDAQ-listed Chinadotcom Corporation and the corporate financial controller of China Strategic Holdings Limited which is listed on the Stock Exchange of Hong Kong. Trained as a chartered accountant at PricewaterhouseCoopers in Canada, Mr. Pang also earned an MBA from the University of Windsor in Canada. He is currently a member of the Canadian Institute of Chartered Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. CHAN Wing Kit, aged 38, is the Financial Controller of the Group and Company Secretary of the Company. He is responsible for the Group's financial management and company secretarial matters. He holds a bachelor of commerce degree from Monash University. Prior to joining the Group in October 2001, he worked as an auditor with an international accounting firm and has several years of experience in auditing, accounting and financial work. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia.

Mr. WU Yuan Cheng, aged 36, is the manager of the general administration department and joined the Group in 1999. He is responsible for general administration, personnel affair and backup services. He graduated from Southwest Agricultural University majoring in accounting and auditing. He has several years of experience in corporate administration.

Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2009 to the shareholder of the Company.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 106.

Interim dividend of HK1.6 cents per share was declared and paid during the year. The directors recommend the payment of a final dividend of HK8.5 cents per ordinary share (note 12) in respect of the year, to shareholders on the register of members on 24 May 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

Segment Information

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is set out in note 4 to the financial statements.

Summary Financial Information

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**688,441**	790,900	615,033	489,143	413,257
PROFIT/(LOSS) BEFORE TAX	**134,177**	(87,238)	54,403	23,411	80,446
Tax	**(3,711)**	(2,302)	(2,091)	(307)	(2,254)
PROFIT/(LOSS) FOR THE YEAR	**130,466**	(89,540)	52,312	23,104	78,192
Attributable to:					
Equity holders of the parent	**130,466**	(89,626)	50,406	23,104	78,192
Minority interests	**—**	86	1,906	—	—
	130,466	(89,540)	52,312	23,104	78,192
ASSETS AND LIABILITIES					
Non— current assets	**483,351**	473,658	518,784	344,021	247,809
Current assets	**388,744**	301,651	329,476	252,885	297,007
Current liabilities	**225,140**	(310,403)	(294,222)	(204,878)	(178,756)
Non— current liabilities	**24,601**	(10,645)	(17,767)	(17,464)	(18,094)
Net Assets	**622,354**	454,261	538,271	374,564	347,966

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements, respectively.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 28 and 29 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$68.5 million of which HK$45.5 million has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$249.1 million may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group did not make any charitable contributions. (2008: HK$2,914,000).

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 10.6% of the total sales for the year and sales to the largest customer included therein amounted to 2.7%. Purchases from the Group's five largest suppliers accounted for approximately 27.1% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 11.3%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Report of the Directors

Directors

The Directors of the Company during the year were:

Executive directors:
Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*
Mr. Lam Toi

Independent non-executive Directors:
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong

In accordance with article 87 of the Company's articles of association, one-third of the Directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Details of the Directors to be retired and offered for re-election at the forthcoming annual general meeting are contained in the circular to be despatched to the shareholders of the Company.

The Company has received annual confirmations of independence from Dr. Donald H. Straszheim, Mr. Yau Chung Hong and Mr. Chang Chu Fai Francis, and as at the date of this report still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors and the senior management of the Group are set out on pages 6 and 7 of the annual report.

Directors' Service Contracts

Mr. Tse Kam Pang and Mr. Lam Toi have entered into service agreements with the Company for an initial term of two years commencing from 1 May 2002, respectively, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other. Mr. Ma Ming Fai, Gary has entered into a service agrement with the Company for a term of two years commencing from 21 January 2005, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other.

All independent non-executive Directors have also entered into letters of appointment with the Company commencing from 7 June 2009 and shall continue for a term of 3 years therefrom unless otherwise agreed.

All Directors are subject to retirement and re-election at the annual general meeting in accordance with the rotation requirements under the articles of association of the Company.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

During the year ended 31 December 2009, none of the Directors had a material interest in any contract of significance to which the Company or any of its affiliates was a party.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 31 December 2009, the interests and short positions of the Directors and chief executive in the shares (the "Shares") and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) Long positions in shares and underlying shares of the Company:

		Number of Shares and underlying Shares held, capacity and nature of interest			
Name of director	Notes	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Kam Pang	(a)	9,228,000	228,820,110	238,048,110	51.00
Mr. Ma Ming Fai, Gary	(b), (c)	11,821,000	2,697,000	14,518,000	3.11
Dr. Donald H. Straszheim	(c)	1,000,000	–	1,000,000	0.21
Mr. Chang Chu Fai J. Francis	(c)	1,000,000	–	1,000,000	0.21
Mr. Yau Chung Hong	(c)	1,000,000	–	1,000,000	0.21

Notes:

(a) Of these 228,820,110 Shares, 107,175,000 Shares are held by Crisana International Inc., ("Crisana") and 121,645,110 Shares are held by Charming Future Holdings Limited ("Charming Future"), both are companies wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the aggregate of 228,820,110 Shares held by these companies.

(b) The 2,697,000 Shares are held by Upwise Investments Limited ("Upwise"), a company incorporated in the British Virgin Islands. The entire issued share capital of Upwise is owned by Mr. Ma Gary Ming Fai.

(c) These represent Shares to be issued upon exercise of the share options granted to them, details of which are set out in note 29 to the financial statement.

No Directors have any non-beneficial personal equity interests in subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2009, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Interest in Competing Business

None of the Directors or any of their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Directors' Rights to Acquire Shares

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares

At 31 December 2009, the following persons who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Crisana	(a)	Directly beneficially owned	107,175,000	22.96%
Charming Future	(b)	Directly beneficially owned	121,645,110	26.06%
Fidelity International Limited		Directly beneficially owned	28,183,038	6.04%

Notes:

(a) Crisana is wholly owned by Mr. Tse Kam Pang, a director.

(b) Charming Future is wholly owned by Mr. Tse Kam Pang, a director.

Save as disclosed above, as at 31 December 2009, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interest of short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

Employment and Remuneration Policy

The total number of employees of the Group as at 31 December 2009 was 2,500 (2008: 2,300). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2009, there were outstanding share options of approximately 37,600,000.

Report of the Directors

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 15.

Audit Committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company. The financial statements of the Group and of the Company for the year ended 31 December 2009 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

Auditors

Ernst & Young retire and offer themselves for reappointment as auditors of the Company.

ON BEHALF OF THE BOARD

Tse Kam Pang
Chairman and Executive Director

Hong Kong
23 April 2010

Independent Auditors' Report

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓

To the shareholders of Royale Furniture Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Royale Furniture Holdings Limited set out on pages 28 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

23 April 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**688,441**	790,900
Cost of sales		**(452,998)**	(549,051)
Gross profit		**235,443**	241,849
Other income and gains	5	**62,346**	59,767
Selling and distribution costs		**(105,936)**	(195,117)
Administrative expenses		**(57,215)**	(68,345)
Impairment of goodwill		**–**	(111,688)
Other expenses		**(2,649)**	(10,884)
Finance costs	7	**(1,164)**	(3,196)
Share of profits and losses of associates		**3,352**	376
PROFIT/(LOSS) BEFORE TAX	6	**134,177**	(87,238)
Income tax expense	10	**(3,711)**	(2,302)
PROFIT/(LOSS) FOR THE YEAR		**130,466**	(89,540)
Attributable to:			
Owners of the parent		**130,466**	(89,626)
Minority interests		**–**	86
		130,466	(89,540)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK29.53 cents**	HK(28.46) cents
			(restated)
Diluted		**HK28.99 cents**	N/A

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**130,466**	(89,540)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**4,718**	36,770
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**4,718**	36,770
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**135,184**	(52,770)
Attributable to:		
Owners of the parent	**135,184**	(52,770)
Minority interests	**–**	86
	135,184	(52,684)

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**386,200**	398,914
Prepaid land lease payments	15	**38,289**	37,859
Intangible assets	16	**3,972**	4,880
Interests in associates	18	**46,458**	32,005
Available-for-sale investments	19	**8,432**	–
Total non-current assets		**483,351**	473,658
CURRENT ASSETS			
Inventories	20	**118,844**	111,607
Trade receivables	21	**29,950**	66,544
Prepayments, deposits and other receivables	22	**112,255**	83,086
Derivative financial instruments	23	**14,000**	–
Cash and cash equivalents	24	**113,695**	40,414
Total current assets		**388,744**	301,651
CURRENT LIABILITIES			
Trade payables	25	**72,921**	86,494
Other payables and accruals	26	**84,657**	132,857
Interest-bearing bank loans	27	**1,498**	28,697
Tax payable		**66,064**	62,355
Total current liabilities		**225,140**	310,403
NET CURRENT ASSETS/(LIABILITIES)		**163,604**	(8,752)
TOTAL ASSETS LESS CURRENT LIABILITIES		**646,955**	464,906

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**646,955**	464,906
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	**24,601**	10,645
Total non-current liabilities		**24,601**	10,645
Net assets		**622,354**	454,261
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**46,676**	31,117
Reserves	30(a)	**525,680**	413,948
Proposed final dividend	12	**45,470**	4,668
		617,826	449,733
Minority interests		**4,528**	4,528
Total equity		**622,354**	454,261

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent									
	Note	Issued share capital HK$'000 (Note 28)	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		31,117	177,587	10,279	20,150	57,044	229,873	7,779	533,829	4,442	538,271
Revaluation of land and buildings		–	–	–	(20,150)	–	–	–	(20,150)	–	(20,150)
Exchange realignment		–	–	–	–	36,770	–	–	36,770	–	36,770
Total income and expense for the year recognised directly in equity		–	–	–	(20,150)	36,770	–	–	16,620	–	16,620
Profit for the year		–	–	–	–	–	(89,626)	–	(89,626)	86	(89,540)
Total comprehensive income for the year		–	–	–	(20,150)	36,770	(89,626)	–	(73,006)	86	(72,920)
Final 2007 dividend declared		–	–	–	–	–	–	(7,779)	(7,779)	–	(7,779)
Equity-settled share option expense		–	–	423	–	–	–	–	423	–	423
Interim 2008 dividend declared	12	–	–	–	–	–	(3,734)	–	(3,734)	–	(3,734)
Proposed final 2008 dividend	12	–	–	–	–	–	(4,668)	4,668	–	–	–
At 31 December 2008		31,117	177,587	10,702	–	93,814	131,845	4,668	449,733	4,528	454,261

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent									
	Notes	Issued share capital HK$'000 (Note 28)	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2009		31,117	177,587	10,702	–	93,814	131,845	4,668	449,733	4,528	454,261
Exchange realignment		–	–	–	–	4,718	–	–	4,718	–	4,718
Total income and expense for the year recognised directly in equity		–	–	–	–	4,718	–	–	4,718	–	4,718
Profit for the year		–	–	–	–	–	130,466	–	130,466	–	130,466
Total comprehensive income for the year		–	–	–	–	4,718	130,466	–	135,184	–	135,184
Final 2008 dividend declared		–	–	–	–	–	–	(4,668)	(4,668)	–	(4,668)
Cancellation of share options		–	–	(10,702)	–	–	10,702	–	–	–	–
Issue of shares – open offer		15,559	26,450	–	–	–	–	–	42,009	–	42,009
Equity-settled share option expense	29	–	–	3,036	–	–	–	–	3,036	–	3,036
Interim 2009 dividend declared	12	–	–	–	–	–	(7,468)	–	(7,468)	–	(7,468)
Proposed final 2009 dividend	12	–	–	–	–	–	(45,470)	45,470	–	–	–
At 31 December 2009		46,676	204,037*	3,036*	–	98,532*	220,075*	45,470	617,826	4,528	622,354

* These reserve accounts comprise the consolidated reserves of HK$525,680,000 (2008: HK$413,948,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**134,177**	(87,238)
Adjustments for:			
Finance costs	7	**1,164**	3,196
Share of profits and losses of associates		**(3,352)**	(376)
Bank interest income	5	**(367)**	(520)
Loss on disposal of assets held for sale	6	**–**	2,293
Loss on disposal of items of property, plant and equipment	6	**34**	502
Depreciation	6	**41,085**	40,505
Recognition of prepaid land lease payments	6	**880**	589
Amortisation of intangible assets	6	**906**	1,209
Foreign exchange loss, net	6	**45**	1,896
Equity-settled share option expense		**3,036**	423
Goodwill impairment		**–**	111,688
		177,608	74,167
(Increase)/decrease in inventories		**(7,237)**	48,377
Decrease/(increase) in trade receivables		**36,594**	(43,173)
(Increase)/decrease in prepayments, deposits and other receivables		**(29,169)**	16,344
Decrease in trade payables		**(13,573)**	(23,103)
(Decrease)/increase in other payables and accruals		**(48,200)**	27,103
Increase in an amount due from the associate		**(5,566)**	–
Increase in an amount due to the associate		**2,454**	–
Cash generated from operations		**112,911**	99,715
Income taxes paid		**(2)**	(1,201)
Net cash flows from operating activities		**112,909**	98,514

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows from operating activities		**112,909**	98,514
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**367**	520
Loan to an associate		**(5,536)**	–
Purchases of items of property, plant and equipment	14	**(29,748)**	(82,660)
Additions to prepaid land lease payments	15	**(1,342)**	(22,730)
Proceeds from disposal of items of property, plant and equipment		**1,333**	35
Purchase of available-for-sale investments		**(8,432)**	–
Purchase of derivative financial investments		**(14,000)**	–
Net cash used in investing activities		**(57,358)**	(104,835)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	**42,009**	–
New bank loans		**16,000**	18,000
Repayment of bank loans		**(29,243)**	(22,237)
Interest paid		**(1,164)**	(3,196)
Dividends paid		**(12,136)**	(11,513)
Net cash flows from/(used in) financing activities		**15,466**	(18,946)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**71,017**	(25,267)
Cash and cash equivalents at beginning of year		**40,414**	51,447
Effect of foreign exchange rate changes, net		**2,264**	14,234
CASH AND CASH EQUIVALENTS AT END OF YEAR		**113,695**	40,414
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**113,695**	40,414
Cash and cash equivalents as stated in the statement of financial position		**113,695**	40,414
Cash and cash equivalents as stated in the statement of cash flows		**113,695**	40,414

Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**352,659**	264,997
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**10,161**	9,399
Cash and cash equivalents	24	**4,788**	50
Total current assets		**14,949**	9,449
CURRENT LIABILITIES			
Other payables and accruals	26	**200**	200
NET CURRENT ASSETS		**14,749**	9,249
Net assets		**367,408**	274,246
EQUITY			
Issued capital	28	**46,676**	31,117
Reserves	30(b)	**275,262**	238,461
Proposed final dividend	12	**45,470**	4,668
Total equity		**367,408**	274,246

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

1. Corporate Information

Royale Furniture Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, the Cayman Islands.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the parent and the ultimate holding companies of the Group are Crisana International Inc., and Charming Future Holdings 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, 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 certain land and buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs interpretations and amendments has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 *Amendments*	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

2.2 Changes in Accounting Policy and Disclosures *(Continued)*

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

(a) Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The adoption of the amendments has had no material impact on the disclosures of financial statements.

2.2 Changes in Accounting Policy and Disclosures *(Continued)*

(d) HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(e) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to HKAS 18 Revenue — Determining whether an entity is acting as a principal or as an agent

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) Borrowing Costs

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

2.2 Changes in Accounting Policy and Disclosures *(Continued)*

(h) Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 Customer Loyalty Programmes

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 Agreements for the Construction of Real Estate

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue — Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. The interpretation has had no impact on the financial position or results of operations of the Group.

2.2 Changes in Accounting Policy and Disclosures *(Continued)*

(l) HK(IFRIC)-Int 16 Hedges of a Net Investment in a Foreign Operation

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 Transfers of Assets from Customers (adopted from 1 July 2009)

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

2.2 Changes in Accounting Policy and Disclosures *(Continued)*

(n) ***(Continued)***

In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

HKAS 28 *Investment in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

2.3 Issued but not Yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	*Amendment to HKAS 32 Financial Instruments: Presentation-Classification of Rights Issues*[3]
HK(IFRIC)-Int 14 Amendments	*Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

2.3 Issued but not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 Scope of *HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 — Group and Treasury Share Transactions*. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

2.3 Issued but not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

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.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013. The Group expects to early adopt HKFRS 9 from 1 January 2010 and continue to apply HKAS 39 for accounting requirements for financial instruments within its scope that are not covered by HKFRS 9. In accordance with the transitional provisions of HKFRS 9, the Group is not required to restate prior period amounts.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the HK(IFRIC)-Int 14 Amendments from 1 January 2011. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

2.3 Issued but not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. 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 are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) *HKFRS 2 Share-based Payment:* Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

2.3 Issued but not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

(b) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that (i) the disclosures required in respect of non-current assets classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:

(i) those HKFRSs specifically require disclosures in respect of non-current assets classified as held for sale or discontinued operations; or

(ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) HKFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

(d) HKAS 1 *Presentation of Financial Statements:* States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

(e) HKAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

(f) HKAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

HK Interpretation 4 Leases — *Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases included in Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

(g) HKAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

2.3 Issued but not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

(h) HKAS 38 *Intangible Assets:* Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) HKAS 39 *Financial Instruments: Recognition and Measurement:* Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

(j) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives:* Clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

(k) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation:* Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies *(Continued)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of an associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 Summary of Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

Goodwill on acquisition for which the agreement date is on or after 1 January 2005 (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 Summary of Significant Accounting Policies *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair values as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and Licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

2.4 Summary of Significant Accounting Policies *(Continued)*

Leases *(Continued)*

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments, are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised as income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of the unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments (Continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In the case, the Group also recognised an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured (or on a derivative asset that is linked to and must be settled by delivery of such and unquoted equity instrument), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" of "prolonged" requires judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

2.4 Summary of Significant Accounting Policies *(Continued)*

Financial liabilities *(Continued)*

Initial recognition and measurement (Continued)

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing loans.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans

After initial recognition, interest-bearing loans are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 Summary of Significant Accounting Policies *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in values and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it its probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- from the rendering of services, when the relevant services are rendered; and
- dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 Summary of Significant Accounting Policies *(Continued)*

Share-based payment transactions *(Continued)*

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK$1,000 per month, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 Summary of Significant Accounting Policies *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. The capitalisation on of such borrowing costs ceases when the assets are substantially ready for their intended use or sales. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies *(Continued)*

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$18,307,000 (2008: HK$18,307,000).

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the write-down/write-back of the inventories in the period in which such estimate has been changed.

3. Significant Accounting Judgements and Estimates *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade receivables

The impairment of trade receivables is made based on the assessment of the recoverability of the trade receivables. The identification of doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the receivables and the impairment/write-back of trade receivables in the period in which the estimate has been changed.

Impairment of items of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4. The recoverable amount of item of property, plant and equipment is the higher of net selling price and value in use, and the calculations of which involve the use of estimates.

4. Operating Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

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

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Operating Segment Information *(Continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2009 and 2008.

Year ended 31 December 2009	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Segment revenue:			
Sales to external customers	539,385	149,056	688,441
Intersegment sales	70,756	–	70,756
Total	610,141	149,056	759,197
Reconciliation:			
Elimination of intersegment sales			(70,756)
Revenue			688,441
Segment results	123,964	18,354	142,318
Reconciliation:			
Interest income			367
Dividend income and unallocated gains			4,856
Corporate and other unallocated expenses			(12,200)
Finance costs			(1,164)
Profit before tax			134,177
Segment assets	699,524	48,635	748,159
Reconciliation:			
Elimination of intersegment receivables			(40,405)
Corporate and other unallocated assets			164,341
Total assets			872,095
Segment liabilities	170,606	10,455	181,061
Reconciliation:			
Elimination of intersegment payables			(80)
Corporate and other unallocated liabilities			68,760
Total liabilities			249,741

4. Operating Segment Information *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2009	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Other segment information			
Share of profits and losses of:			
Associates	3,259	93	3,352
Other non-cash expenses			
Depreciation and amortisation	36,224	4,677	40,901
Interests in associates	36,352	10,106	46,458
Capital expenditure	27,421	3,609	31,030*

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

4. Operating Segment Information *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2008	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Segment revenue:			
Sales to external customers	649,818	141,082	790,900
Intersegment sales	82,365	–	82,365
Total	732,183	141,082	873,265
Reconciliation:			
Elimination of intersegment sales			(82,365)
Revenue			790,900
Segment results	329	(77,471)	(77,142)
Reconciliation:			
Interest income			520
Dividend income and unallocated gains			3,887
Corporate and other unallocated expenses			(11,307)
Finance costs			(3,196)
Loss before tax			(87,238)
Segment assets	697,303	55,641	752,944
Reconciliation:			
Elimination of intersegment receivables			(39,910)
Corporate and other unallocated assets			62,275
Total assets			775,309
Segment liabilities	207,080	17,225	224,305
Reconciliation:			
Elimination of intersegment payables			(981)
Corporate and other unallocated liabilities			97,724
Total liabilities			321,048

4. Operating Segment Information *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2008	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Other segment information			
Share of profits and losses of:			
Associates	272	104	376
Other non-cash expenses			
Depreciation and amortisation	33,210	6,785	39,995
Interests in associates	21,992	10,013	32,005
Capital expenditure	115,920	5,351	121,271

(b) Geographical information

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

5. 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:

	2009 HK$'000	2008 HK$'000
Revenue		
Sale of goods	**688,441**	790,900
Other income and gains		
Bank interest income	**367**	520
Accessories income	**51,165**	55,736
Reversals of write down of inventories	**9,310**	–
Others	**1,504**	3,511
	62,346	59,767

6. Profit/(Loss) Before Tax

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of goods sold		**452,998**	549,051
Depreciation of items of property, plant and equipment	14	**41,085**	40,505
Recognition of prepaid land lease payments	15	**880**	589
Amortisation of intangible assets*	16	**906**	1,209
Loss on disposal of items of property, plant and equipment**		**34**	502
Loss on disposal of assets held for sale**		**–**	2,293
Research and development costs*		**6,155**	7,742
Minimum lease payments under operating leases:			
Land and buildings		**42,793**	41,553
Auditors' remuneration		**1,880**	1,880
Employee benefit expense: (excluding directors' remuneration (note 8))			
Wages and salaries		**95,659**	82,566
Equity-settled share option expense		**3,036**	423
Pension scheme contributions		**1,939**	4,838
		100,634	87,827
Donation**		**–**	2,914
Impairment of trade receivables***	21	**7,453**	719
Foreign exchange difference, net		**45**	1,896
Reversals of write down of inventories		**(9,310)**	–
Bank interest income		**(367)**	(520)

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

** The loss on disposal of items of property, plant and equipment and loss on disposal of assets held for sale for the year are included in "Other expenses" on the face of the consolidated income statement.

*** The impairment of trade receivables is included in the "Cost of Sales" on the face of the consolidated income statement.

7. Finance Costs

	Group 2009 HK$'000	Group 2008 HK$'000
Interest on bank loans	**1,164**	3,196

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2009 HK$'000	Group 2008 HK$'000
Fees	**1,692**	1,692
Other emoluments:		
Salaries, allowances and benefits in kind	**7,752**	7,752
Equity-settled share option expense	**518**	–
Performance related bonuses	**1,076**	646
	11,038	10,090

(a) Independent non-executive directors

	2009		2008	
Group	Fees HK$'000	Equity-settled share option benefits HK$'000	Fees HK$'000	Equity-settled share option benefits HK$'000
Dr. Donald H. Straszheim	**312**	**68**	312	–
Mr. Yau Chung Hong	**240**	**68**	240	–
Mr. Chang Chu Fai, Johnson. Francis	**240**	**68**	240	–
	792	**204**	792	–

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. Directors' Remuneration *(Continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Total emoluments HK$'000
2009					
Executive directors:					
Mr. Tse Kam Pang	**300**	**3,000**	**500**	**–**	**3,800**
Mr. Lam Toi	**300**	**2,592**	**216**	**–**	**3,108**
Mr. Ma Ming Fai, Gary	**300**	**2,160**	**360**	**314**	**3,134**
	900	**7,752**	**1,076**	**314**	**10,042**

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Total emoluments HK$'000
2008					
Executive directors:					
Mr. Tse Kam Pang	300	3,000	250	–	3,550
Mr. Lam Toi	300	2,592	216	–	3,108
Mr. Ma Ming Fai, Gary	300	2,160	180	–	2,640
	900	7,752	646	–	9,298

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2008: three) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2008: two) non-director, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,433**	1,486
Performance related bonuses	**95**	47
Equity-settled share option expense	**–**	–
Pension scheme contributions	**12**	24
	1,540	1,557

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	2	2

10. 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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2009	2008
	HK$'000	HK$'000
Group:		
Current — PRC corporate income tax	**3,711**	2,302

10. Income Tax *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Group			
	2009		2008	
	HK$'000	**%**	HK$'000	%
Profit/(loss) before tax	**134,177**		(87,238)	
Tax at the applicable tax rate at 25% (2008: 25%)	**33,544**	**25.0**	(21,810)	25.0
Lower income tax rates for specific provinces or enacted by local authority	**(38,669)**	**(28.8)**	(16,278)	18.7
Income not subject to tax	**(792)**	**(0.6)**	(336)	0.4
Expenses not deductible for tax	**656**	**0.5**	31,457	(36.1)
Tax losses not recognised	**8,972**	**6.7**	9,269	(10.6)
Tax charge at the Group's effective rate	**3,711**	**2.8**	2,302	(2.6)

The share of tax attributable to associates amounting to HK$1,225,000 (2008: nil), is included in "Share of profits and losses of associates" in the consolidated income statement.

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$46,926,000 (2008: HK$78,349,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2009.

Pursuant to the Macao SAR's Offshore Laws, Sino Full Macao Commercial Offshore Limited ("Sino Full"), a Macao offshore company, is exempted from all the taxes in Macao, including income tax, industrial tax and stamp duties.

According to the Income Tax Law of the PRC on enterprises with foreign investment and foreign enterprises, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), Guangzhou Full Fat Furniture Limited ("Fufa"), Guangzhou Yufa Furniture Company Limited ("Yufa"), Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply (Dongguan) Furniture Limited ("Simply"), wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a corporate income tax rate of 25%. These subsidiaries are also exempted from PRC corporate income tax for the first two profitable years of their operations and are eligible to a 50% reduction in PRC corporate income tax for the following three years.

10. Income Tax *(Continued)*

The current year income tax rate for Wanlibao was 25% as it expired the beneficial period of seventh years. The tax rate for Simply and Fufa was 12.5% as they were in their fifth profit-making year. No provision for corporate income taxes has been made by management for Yufa as it was in its second beneficial year. No provision for corporate income taxes has been made by management for Fuli as it was in its first beneficial year.

The PRC Corporate Income Tax Law (the "New Corporate Income Tax Law"), which was approved in the 5th Session of the 10th National People's Congress concluded on 16 March 2007, became effective on 1 January 2008. The New Corporate Income Tax Law introduced a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25%, resulting in a change in the income tax rate. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. However, the change in the tax rate has had no material impact on the results and financial position of the Group for the year ended 31 December 2009.

11. Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of HK$60,253,000 (2008: profit of HK$50,480,000), which has been dealt with in the financial statements of the Company (note 30(b)).

12. Dividends

	Group	
	2009	2008
	HK$'000	HK$'000
Interim — 2009: HK1.6 cents (2008: HK1.2 cents) per ordinary share	**7,468**	3,734
Proposed final — 2009: HK8.5 cents (2008: HK1.0 cent) per ordinary share	**45,470**	4,668
	52,938	8,402

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 441,770,528 (2008: 314,923,084) in issue during the year, as adjusted to reflect the open offer during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	Group	
	2009	2008
	HK$'000	HK$'000
Earnings/loss		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	**130,466**	(89,626)

	Number of shares	
	2009	2008
		(restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**441,770,528**	314,923,084
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,304,000**	—
	450,074,528	314,923,084

14. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009							
At 31 December 2008 and at1 January 2009:							
Cost or valuation	346,853	26,726	125,187	13,420	13,401	12,311	537,898
Accumulated depreciation	(38,878)	(20,777)	(60,207)	(10,220)	(8,902)	–	(138,984)
Net carrying amount	307,975	5,949	64,980	3,200	4,499	12,311	398,914
At 1 January 2009, net of accumulated depreciation	307,975	5,949	64,980	3,200	4,499	12,311	398,914
Additions	4,208	3,818	9,225	1,216	991	10,290	29,748
Disposals	–	(81)	(983)	(40)	(263)	–	(1,367)
Depreciation provided during the year	(19,839)	(5,094)	(12,959)	(1,525)	(1,668)	–	(41,085)
Transfers	14,112	–	–	–	–	(14,112)	–
Exchange realignment	(11)	(1)	(5)	–	(1)	8	(10)
At 31 December 2009, net of accumulated depreciation	306,445	4,591	60,258	2,851	3,558	8,497	386,200
At 31 December 2009:							
Cost or valuation	365,180	15,159	128,934	14,487	13,272	8,497	545,529
Accumulated depreciation	(58,735)	(10,568)	(68,676)	(11,636)	(9,714)	–	(159,329)
Net carrying amount	306,445	4,591	60,258	2,851	3,558	8,497	386,200
Analysis of cost or valuation:							
At cost	201,835	15,159	128,934	14,487	13,272	8,497	382,184
At valuation	163,345	–	–	–	–	–	163,345
	365,180	15,159	128,934	14,487	13,272	8,497	545,529

14. Property, Plant and Equipment *(Continued)*

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008							
At 31 December 2007 and at1 January 2008:							
Cost or valuation	286,593	20,667	109,143	13,553	9,979	20,019	459,954
Accumulated depreciation	(29,437)	(13,551)	(45,404)	(8,235)	(7,657)	–	(104,284)
Net carrying amount	257,156	7,116	63,739	5,318	2,322	20,019	355,670
At 1 January 2008, net of accumulated depreciation	257,156	7,116	63,739	5,318	2,322	20,019	355,670
Additions	3,359	5,238	16,500	621	3,756	69,087	98,561
Disposals	–	(538)	(5,759)	(1,236)	(413)	(256)	(8,202)
Depreciation provided during the year	(17,564)	(6,292)	(13,607)	(1,766)	(1,276)	–	(40,505)
Transfers	77,901	–	–	–	–	(77,901)	–
Revaluations	(26,513)	–	–	–	–	–	(26,513)
Exchange realignment	13,636	425	4,107	263	110	1,362	19,903
At 31 December 2008, net of accumulated depreciation	307,975	5,949	64,980	3,200	4,499	12,311	398,914
At 31 December 2008:							
Cost or valuation	346,853	26,726	125,187	13,420	13,401	12,311	537,898
Accumulated depreciation	(38,878)	(20,777)	(60,207)	(10,220)	(8,902)	–	(138,984)
Net carrying amount	307,975	5,949	64,980	3,200	4,499	12,311	398,914
Analysis of cost or valuation:							
At cost	183,510	26,726	125,187	13,420	13,401	12,311	374,555
At valuation	163,343	–	–	–	–	–	163,343
	346,853	26,726	125,187	13,420	13,401	12,311	537,898

At 31 December 2009, certain of the Group's office buildings with a net book value of approximately HK$26,482,000 (2008: HK$28,257,000) were pledged to secure general banking facilities granted to the Group.

15. Prepaid Land Lease Payments

	Group 2009 HK$'000	Group 2008 HK$'000
Carrying amount at 1 January	**38,652**	15,285
Additions during the year	**1,342**	22,730
Recognised during the year	**(880)**	(589)
Exchange realignment	**–**	1,226
Carrying amount at 31 December	**39,114**	38,652
Current portion included in prepayments, deposits and other receivables	**(825)**	(793)
Non-current portion	**38,289**	37,859

The leasehold land is held under a long term lease and is situated in Mainland China.

16. Intangible Assets

Group

	Licence rights of trademarks 2009 HK$'000	Licence rights of trademarks 2008 HK$'000
At 1 January:		
Cost	**8,018**	8,018
Accumulated amortisation	**(3,138)**	(2,289)
Net carrying amount	**4,880**	5,729
Cost at 1 January, net of accumulated amortisation	**4,880**	5,729
Additions during the year	**–**	–
Amortisation provided during the year	**(906)**	(1,209)
Exchange realignment	**(2)**	360
Cost at 31 December, net of accumulated amortisation	**3,972**	4,880
At 31 December:		
Cost	**8,018**	8,018
Accumulated amortisation	**(4,046)**	(3,138)
Net carrying amount	**3,972**	4,880

17. Interests in Subsidiaries

	Company 2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**91,744**	91,744
Due from subsidiaries	**260,915**	173,253
	352,659	264,997

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2009 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1,000	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary US$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Investment holding and trading of furniture
Wanlibao	PRC (note a)	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacture and trading of furniture
Fufa	PRC (note b)	Mainland China	Paid-up registered HK$26,000,000	–	100	Manufacture and trading of furniture
Simply	PRC (note c)	Mainland China	Paid-up registered HK$18,000,000	–	100	Manufacture and trading of furniture
Yufa	PRC (note d)	Mainland China	Paid-up registered HK$50,800,000	–	100	Manufacture and trading of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macao	Ordinary US$1	–	100	Trading of furniture
King Apex International Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

17. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lead Concept Development Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Smart Excel International Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Umbrella Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Coralview Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Ridgecrest Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Moffat Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Knollwood Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Sino Full	Macao	Macao	Ordinary MOP100,000	–	100	Dormant
Tomford Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Fuli	PRC (note e)	Mainland China	Ordinary HK$65,000,000	–	100	Manufacture and trading of furniture
Censtar International Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Chitaly Furniture Global Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Spring Valley Properties Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Competent Holdings Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Investment activities
Royale Furniture Anhui Limited	PRC (note f)	Mainland China	Ordinary HK$1,444,234	–	100	Dormant
Signature Industries Limited	BVI	Mainland China	Ordinary HK$31,000,000	–	71	Manufacture and sale of sofas

17. Interests in Subsidiaries *(Continued)*

Notes:

a. Wanlibao is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 15 June 1999. The tenure of the articles of association and the terms of operations of Wanlibao are 30 years from 9 July 1999.

b. Fufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 13 March 2003. The tenure of the articles of association and the terms of operations of Fufa are 20 years from 22 April 2003.

c. Simply is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 28 March 2004. The tenure of the articles of association and the terms of operations of Simply are 12 years from 17 May 2004.

d. Yufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association and the terms of operations of Yufa are 20 years from 14 September 2005.

e. Fuli is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association and the terms of operations of Fuli are 20 years from 12 December 2005.

f. Royale Furniture Anhui Limited is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 5 June 2006. The tenure of the articles of association and the terms of operations of Royal Furniture Anhui Limited are from 5 June 2006 to 28 November 2025.

18. Interests in Associates

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**18,494**	12,689
Goodwill on acquisition	**18,307**	18,307
	36,801	30,996
Loans to an associate	**6,545**	1,009
Due from an associate	**5,566**	–
Due to an associate	**(2,454)**	–
	46,458	32,005

18. Interests in Associates *(Continued)*

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values. The Group's trade receivable and payable balances with the associates are disclosed in note 21 and 25 to the financial statements respectively.

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Grandeur Industries Limited ("Grandeur")	Ordinary HK$10,000	Hong Kong	38	Manufacture and sale of mattresses
Gold Power International Co., Ltd. ("Gold Power")	Ordinary shares US$1 each	BVI	40	Investment activities and retail of furniture

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2009 HK$'000	2008 HK$'000
Assets	**62,928**	51,766
Liabilities	**14,500**	18,039
Revenue	**96,743**	78,162
Profit	**8,809**	977

19. Available-for-sale Investments

	2009 HK$'000	2008 HK$'000
Listed equity investments, at fair value	**8,432**	–

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices.

20. Inventories

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**37,449**	31,894
Work in progress	**9,123**	2,214
Finished goods	**72,272**	77,499
	118,844	111,607

21. Trade Receivables

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**41,852**	70,993
Impairment	**(11,902)**	(4,449)
	29,950	66,544

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

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**26,182**	42,642
31 to 90 days	**1,594**	16,722
91 to 180 days	**756**	4,642
Over 180 days	**1,418**	2,538
	29,950	66,544

21. Trade Receivables *(Continued)*

Included in the Group's trade receivables is an amount due from the Group's associate of HK$1,453,000 (2008: HK$2,345,000) which is repayable on similar credit terms to those offered to the major customers of the Group.

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**4,449**	3,730
Impairment losses recognised (note 6)	**7,453**	719
At 31 December	**11,902**	4,449

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**27,776**	59,364
One to three months past due	**756**	4,642
Over three months past due	**1,418**	2,538
	29,950	66,544

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.

22. Prepayments, Deposits and Other Receivables

	Group	
	2009	2008
	HK$'000	HK$'000
Prepayments	**12,178**	6,506
Deposits and other receivables	**100,077**	76,580
	112,255	83,086

	Company	
	2009	2008
	HK$'000	HK$'000
Deposits and other receivables	**10,161**	9,399

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. Derivative Financial Instruments

	Group	
	2009	2008
	HK$'000	HK$'000
Equity linked notes	**14,000**	–

The carrying amounts of equity linked notes are approximate to their fair values. The above transaction involving derivative financial instrument is with BNP Paribas of HK$11,000,000 and Barclays Bank of HK$3,000,000. These banks are with good credit ratings.

24. Cash and Cash Equivalents

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**113,695**	40,414	**4,788**	50

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$38,455,000 (2008: HK$36,579,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

25. 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	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**47,014**	54,776
31 to 90 days	**24,258**	30,001
91 to 180 days	**656**	806
181 to 360 days	**128**	483
Over 360 days	**865**	428
	72,921	86,494

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

There were no trade payables due to associates as at 31 December 2009 (2008: HK$14,595,000).

26. Other Payables and Accruals

Group

	2009 HK$'000	2008 HK$'000
Advances from customers	**23,788**	21,981
Other payables	**51,507**	98,706
Accruals	**9,362**	12,170
	84,657	132,857

Company

	2009 HK$'000	2008 HK$'000
Other payables	**200**	200

Other payables are non-interest-bearing and have an average term of three months.

27. Interest-bearing Bank Loans

Group

	2009			2008		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Current portion of long term bank loans – secured	**1.5% per annum below BLR**	**2010**	**845**	1/2/3-month HIBOR + 1	2009	28,000
Current portion of long term bank loans – secured	**2.75% per annum below BLR**	**2010**	**653**	Hong Kong dollar prime rate – 2.75	2009	697
			1,498			28,697
Non-current						
Secured bank loan	**2.75% per annum below BLR**	**2011-2022**	**9,992**	Hong Kong dollar prime rate – 2.75	2010-2022	10,645
Secured bank loan	**1.5% per annum below BLR**	**2011-2022**	**14,609**			–
			24,601			10,645
			26,099			39,342

	Group	
	2009 HK$'000	2008 HK$'000
Analysed into:		
Within one year	**1,498**	28,697
In the second year	**1,603**	713
In the third to fifth years, inclusive	**4,809**	2,238
Beyond five years	**18,189**	7,694
	26,099	39,342

A bank loan of the Group is secured by mortgages over the Group's office buildings situated in Hong Kong, which had an aggregate net book value at the end of the reporting period of approximately HK$26,482,000 (2008: HK$28,257,000).

The carrying amounts of the Group's current borrowings approximate to their fair values.

28. Share Capital

	2009 HK$'000	2008 HK$'000
Authorised:		
2,000,000,000 (2008: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
466,761,000 (2008: 311,174,000) ordinary shares of HK$0.10 each	**46,676**	31,117

An open offer on the base of one offer share for every two existing shares approved by the shareholders on 9 February 2009, was at a subscription price of HK$ 0.27 per share, resulting in the issue of 155,587,000 shares of HK$0.27 each for a total cash consideration, before expenses of HK$42,009,000.

29. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group's operations. Under the Scheme, the directors may, at their discretion, invite any employees, directors or consultants of any company in the Group to acquire options. The Scheme became effective on 26 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company pursuant to which options may be granted to directors, consultants and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding, for this purpose, shares issued on exercise of options under the Scheme and any other share option schemes of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under this Scheme when aggregated with securities to be issued under any other share option schemes of the Group may be increased by the board of directors, provided that the shares to be issued upon exercise of all outstanding options do not exceed 30% of the relevant class of securities in issue.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company.

29. Share Option Scheme *(Continued)*

The offer of a grant of share options may be accepted within eight days from the date of offer, upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share option granted is determined by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period (and not more than 10 years after the date of grant). The option period will be determined by the board of directors and communicated to each grantee. The board of directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the board of directors retains discretion to accelerate the vesting of the fixed term options in the event that certain performance targets are met.

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the Scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. Share Option Scheme *(Continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 January 2009	Adjusted during the year#	Cancelled during the year	Granted during the year	Number of share options At 31 December 2009	Date of grant of share options *	Exercise period of share options	Exercise price of share options HK$ per share	Price of the Company's shares at grant date of options** HK$ per share
Directors									
Donald H. Straszheim	800,000	58,947	(858,947)	–	–	28/9/2004	29/9/2004 to 28/9/2014	4.540	4.800
	800,000	58,947	(858,947)	–	–	2/5/2007	3/5/2007 to 2/5/2017	1.257	1.330
				1,000,000	1,000,000	20/7/2009	20/7/2010 to 19/7/2020	0.520	0.520
Yau Chung Hong	200,000	14,737	(214,737)	–	–	8/4/2005	9/4/2005 to 8/4/2015	6,939	7.450
				1,000,000	1,000,000	20/7/2009	20/7/2010 to 19/7/2020	0.520	0.520
Chang Chu Fai, Johnson. Francis	200,000	14,737	(214,737)	–	–	6/9/2005	7/9/2005 to 6/9/2015	4,256	4.350
	400,000	29,474	(429,474)	–	–	2/5/2007	3/5/2007 to 2/5/2017	1,257	1.330
				1,000,000	1,000,000	20/7/2009	20/7/2010 to 19/7/2020	0.520	0.520
Ma Ming Fai, Gary	2,900,000	213,684	(3,113,684)	–	–	2/5/2007	3/5/2007 to 2/5/2017	1.257	1.330
				4,600,000	4,600,000	20/7/2009	20/7/2010 to 19/7/2020	0.520	0.520
Others									
Members of senior management and other employees of the Group	4,300,000	316,842	(4,616,842)	–	–	9/7/2007	10/7/2007 to 9/7/2017	1.412	1.480
	100,000	7,369	(107,369)	–	–	28/9/2004	29/9/2004 to 28/9/2014	4,540	4.800
	1,500,000	110,526	(1,610,526)	–	–	9/1/2006	10/1/2006 to 9/1/2016	3,353	3.675
	8,000,000	589,473	(8,589,473)	–	–	15/11/2006	16/11/2006 to 15/11/2016	1.028	1.080
				30,000,000	30,000,000	20/7/2009	20/7/2010 to 19/7/2020	0.520	0.520
In aggregate	19,200,000	1,414,736	(20,614,736)	37,600,000	37,600,000				

29. Share Option Scheme *(Continued)*

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of grant of the share options is the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the trading day immediately prior to the date of grant of the options.

\# The options was adjusted as a result of the open offer on 2 March 2009. The total number of ordinary shares falling to be attaching to the then outstanding 19,200,000 options granted under the Scheme was adjusted from 19,200,000 ordinary shares of HK$ 0.1 each to 20,614,736 shares of HK$ 0.1 each, and the adjusted exercise prices of all outstanding options were HK$1.028 (2008: HK$ 1.104) to HK$6.936 (2008: HK$ 7.450).

The Company's shareholders at the annual general meeting held on 5 June 2009 approved that all outstanding share options granted but not exercised of 20,614,736 were cancelled.

On 20 July 2009, the Company granted share options to grantees which entitle them to subscribe for a total of 37,600,000 ordinary shares of HK$0.10 each of the Company.

The fair value of the share options granted during the year was HK$6,756,000, of which the Group recognised a share option expense of HK$3,036,000 for the year ended 31 December 2009.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant. The following table lists the inputs to the model used:

	2009
Dividend yield (%)	**4.17**
Volatility (%)	**63.50**
Risk-free interest rate (%)	**2.48**
Expected life of options (year)	**11**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At the end of the reporting period, the Company had 37,600,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 37,600,000 additional ordinary shares of the Company and additional share capital of HK$3,760,000 and share premium of HK$15,792,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 37,600,000 share options outstanding under the Scheme, which represented approximately 8.1% of the Company's shares in issue as at that date.

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 32 to 33 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve (note a) HK$'000	Accumulated (losses)/ Retained profits HK$'000	Total HK$'000
At 1 January 2008		222,731	10,279	(37,050)	195,960
Issue of shares		–	–	–	–
Share option exercised		–	–	–	–
Equity-settled share option expense		–	423	–	423
Interim 2008 dividend declared	12	–	–	(3,734)	(3,734)
Proposed final 2008 dividend	12	–	–	(4,668)	(4,668)
Total comprehensive income for the year		–	–	50,480	50,480
At 31 December 2008 and at 1 January 2009		222,731	10,702	5,028	238,461
Cancellation of share options		–	(10,702)	10,702	–
Equity-settled share option expense	29	–	3,036	–	3,036
Issue of shares — open offer		26,450	–	–	26,450
Interim 2009 dividend declared	12	–	–	(7,468)	(7,468)
Proposed final 2009 dividend	12	–	–	(45,470)	(45,470)
Total comprehensive income for the year		–	–	60,253	60,253
At 31 December 2009		249,181	3,036	23,045	275,262

Note:

The share option reserve comprise the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expired or be forfeited.

31. Operating Lease Arrangements

As lessee

The Group leases certain of its office buildings, retail shops and warehouses under operating lease arrangements. Leases for the properties are negotiated for terms ranging from one to seven years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**19,527**	30,899
In the second to fifth years, inclusive	**6,344**	9,839
After five years	**1,628**	–
	27,499	40,738

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for:		
The construction of land and buildings	**–**	8,671
The purchase of property, plant and machinery	**4,582**	–
	4,582	8,671

33. Contingent Liabilities

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

34. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2009	2008
	Notes	**HK$'000**	HK$'000
Associates:			
Sale of products	(i)	**6,780**	7,965
Purchase of products	(i)	**72,989**	84,269
Director:			
Sales of solid wood furniture	(ii)	**4,709**	–

(i) The sales to and purchase from the associates were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The sales to the director were made according to the price determined in the bidding process.

(b) Outstanding balances with associates

Details of the Group's loans to, due from and due to, one of its associates and trade balance with its associates as at the end of the reporting period are included in note 21 and note 25 to the financial statements.

(c) Compensation of key management personnel of the Group

	Group	
	2009	2008
	HK$'000	HK$'000
Short term employee benefits	**12,048**	11,623
Equity-settled share option benefits	**518**	423
Pension scheme contributions	**12**	24
Total compensation paid to key management personnel	**12,578**	12,070

Further details of directors' emoluments are included in note 8 to the financial statements.

35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	Held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2009				
Trade receivables	–	29,950	–	29,950
Available-for-sale investments	–	–	8,432	8,432
Financial assets included in prepayments, deposits and other receivables (note 22)	–	100,077	–	100,077
Derivative financial instruments	14,000	–	–	14,000
Cash and cash equivalents	–	113,695	–	113,695
	14,000	243,722	8,432	266,154
2008				
Trade receivables	–	66,544	–	66,544
Financial assets included in prepayments, deposits and other receivables (note 22)	–	76,580	–	76,580
Cash and cash equivalents	–	40,414	–	40,414
	-	183,538	–	183,538

35. Financial Instruments by Category *(Continued)*

Financial liabilities

	2009 Financial liabilities at amortised cost HK$'000	2008 Financial liabilities at amortised cost HK$'000
Trade payables	**72,921**	86,494
Financial liabilities included in other payables and accruals (note 26)	**51,507**	98,706
Interest-bearing bank loans	**26,099**	39,342
	150,527	224,542

Financial assets

	Company	
	2009 HK$'000	2008 HK$'000
Financial assets included in prepayments, deposits and other receivables (note 22)	**10,161**	9,399
Cash and cash equivalents	**4,788**	50
	14,949	9,449

Financial liabilities

	Company	
	2009 HK$'000	2008 HK$'000
Financial liabilities included in other payables and accruals (note 26)	**200**	200

36. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks. Generally, the Group employs a conservative strategy regarding its risk management.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The interest-bearing loans with floating interest rates are denominated in Hong Kong dollars. If there would be a general increase/decrease in the interest rate of bank borrowings with floating interest rates by 25 basis points, with all other variables held constant, the profit before tax and owners' equity for the Group would have decreased by approximately HK$652,000 and HK$983,000 for the years ended 31 December 2009 and 2008 respectively, vice versa.

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 3.27% (2008: 5.14%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2008: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

36. Financial Risk Management Objectives and Policies *(Continued)*

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed across different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

36. Financial Risk Management Objectives and Policies *(Continued)*

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans 6% of the Group's debts would mature in less than one year as at 31 December 2009 (2008: 73%) based on the carrying values of borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

		2009	
	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Interest-bearing bank loans	1,498	24,601	26,099
Trade payables	72,056	865	72,921
Other payables and accruals	78,710	5,947	84,657
	152,264	31,413	183,677

		2008	
	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Interest-bearing bank loans	28,697	10,645	39,342
Trade payables	86,066	428	86,494
Other payables and accruals	132,857	–	132,857
	247,620	11,073	258,693

36. Financial Risk Management Objectives and Policies *(Continued)*

(v) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank loans, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

The gearing ratios as at the ends of the reporting periods were as follows:

Group

	2009 **HK$'000**	2008 HK$'000
Interest-bearing bank loans	**26,099**	39,342
Trade payables	**72,921**	86,494
Other payables and accruals	**84,657**	132,857
Less: Cash and cash equivalents	**(113,695)**	(40,414)
Net debt	**69,982**	218,279
Equity attributable to owners of the parent	**617,826**	449,733
Capital and net debt	**687,808**	668,012
Gearing ratio	**10%**	33%

37. Events After the Reporting Period

(i) On 4 January 2010, Chitaly Furniture Global Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into agreements with Mr. Liyi and Mr. Zeng Pengfei (the "Vendors"), pursuant to which the Purchaser has conditionally agreed to purchase and the Vendors have conditionally agreed to sell or procure the sale of the Sale Shareholding, representing an aggregate of 50% of the entire registered capital of 北京裕發家具有限公司 (the "Target") Beijing Yu Fa Jia Ju Co. Ltd., for an aggregate consideration of HK$75 million, which was satisfied by way of allotment and issue of a total of 68,180,000 shares (credited as fully paid) by the Company at HK$1.10 per share to the Vendors. Upon completion, the Purchaser would hold 50% of the entire registered capital of the Target. The same was completed on 10 February 2010.

(ii) On 14 April 2010, the Company has granted share options to the grantee which, subject to their acceptance, entitle them to subscribe for a total of 2,000,000 ordinary shares of HK$0.10 each of the Company under the share option scheme adopted by the Company on 26 April 2002.

38. Comparative Amounts

During the year, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 April 2010.