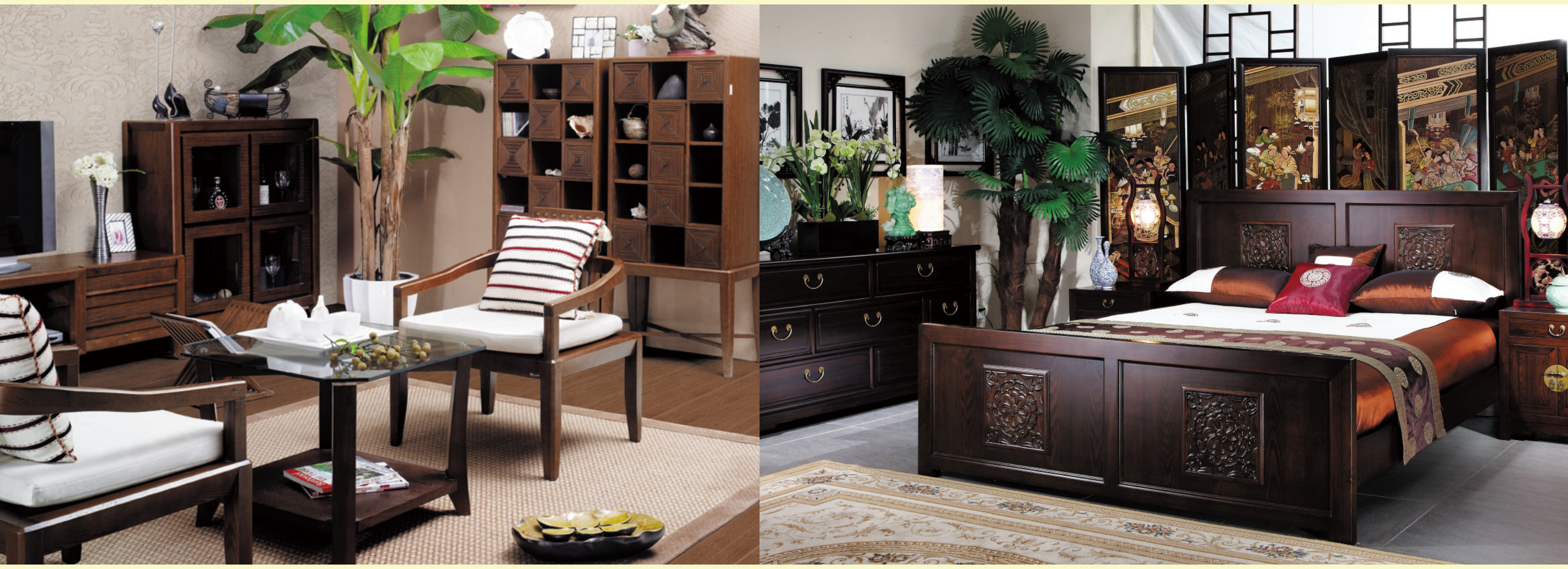

Annual Report 2010

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

Initial
reforms produced
magnificent results.
Building
on solid foundation,
reaching for new heights.

Royal FURNITURE 皇朝傢俬

CONTENTS

Page

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*
Mr. Zeng Lejin *(Chief Operating Officer)*
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

INVESTOR RELATIONS

Tel: (852) 2636-6648
Email: info@chitaly.com.hk

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 2010.

In line with China's strong economic growth, the Group grew its sales volume across various fronts during the financial year of 2010, making another milestone of the Group's development. Subsequent to the turnaround of our business and record-high profit in 2009, the Group's growth momentum continued in 2010 with substantial growth for both our sales revenue and net profit as a result of our aggressive sales strategy.

The Group achieved year-on-year turnover growth of 35.6% to HK$1,210 million. Profit attributable to equity shareholders amounted to HK$181 million, a new record high for the Group since its inception and an increase of 38.9%.

The Board of Directors recommended the payment of a final dividend of HK9.0 cents per share for the year ended 31 December 2010.

QUALITY GROWTH

While 2009 was a year of turnaround through cost containment, 2010 was truly a year of growth for the Group. The Group's growth engines were moving forward on all fronts. We are glad that our measures in enhancing the same store sales growth of our sales network demonstrated positive results during the year. And we are committed to continue our efforts on this sales front.

The Group has implemented strong measures in growing its sales throughout its franchise network, such as the "Sofa Week" campaign, which, along with other measures, has helped to drive up our same store sales growth significantly. On the other hand, the Group has substantially increased its total number of store outlets for both franchise stores and self-operating stores, bringing substantial sales revenue growth for the Group. Riding on a strong market demand, the Group was able to raise the wholesale price for all of our products by 9% near the year end of 2010.

The management's reform measures initiated early 2009 continued to bear fruit in 2010. The rising cost on direct materials was mitigated by our significantly enlarged production capacity providing us better economies of scale as well as the added leverage in negotiating the best price with our suppliers in material procurements. Our flexible labor policy enabled us to retain our best workers to ensure maximum efficiency in production operations despite rising wages throughout China. The improved product mix continued to play an important role in increasing our profit, allowing us to minimize the negative impact on our gross profit margin due to the rising cost of direct material and labor.

PREMIUM BRAND VALUE

Our Royal Furniture brand continues to command a premium value position in the marketplace. With this in mind, we launched three new product series during 2010 to strengthen our market position. The "Jessica" product series with trendy designs was well received by the younger Chinese generation. The modern "Butterfly" product series which is similar to "Jessica" in terms of styles, and the latest series "Louis Palace" in classical western palace style were also launched in 2010. "Louis Palace" further strengthened our premium brand position since it targets the very high end customers who perceive the furniture in their homes as symbols of their wealth status in the booming Chinese economy.

FUTURE EXPANSION

With the Chinese government targeting an annual GDP growth rate of near 8% and the 12th Five Year Plan stipulates that the Government is to put more emphasis on domestic consumption, together with ongoing urbanization, the furniture industry in China is definitely one of the beneficiaries of the resulting favourable marco-environment.

Thus, the Group is planning to expand in different geographic regions within China. As we are expected to reach full production capacity within two years, we plan to expand our production bases near our potential customers. We have already announced that we are establishing a major production plant with a local joint venture partner at Tianjin. This plant should be able to serve our customers in both northern and northeastern China in the coming years. In addition, we intend to establish a production plant at Nanchang, Jiangxi which can best serve our customers in central and eastern China. And we believe that the two new production bases will accelerate our penetration elsewhere in China.

OUTLOOK

We are optimistic about our prospects in 2011. With the raise of 9% in our wholesale price at the end of 2010, we are expecting a same store sales growth rate of at least that much for 2011. With a similar effort to grow the volume of same store sales as seen in 2010, we should achieve a respectable rate of overall same store sales growth. We will step up our efforts over what we did in 2010 to increase the growth rate of our new store outlets in 2011. For the domestic market in China during 2011, we intend to launch new home products under the concept of "Royal Home" instead of concentrating on standalone furniture products as in the past. Our sales on the export front should also experience certain growth during 2011.

Leveraging the favourable operational environment and with a concrete expansion plan in place, we will continue to strive for the best performance, aiming to bring satisfactory returns to shareholders.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks to the entire management team, our business partners and franchisees and the 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, 29 March 2011

DIVIDEND

The Board has resolved to recommend a final dividend for the year ended 31 December 2010 in scrip form equivalent to HK 9.0 cents per share with a cash option to the shareholders whose names appear on the register of members of the Company on 11 May 2011. Together with the interim dividend of HK1.6 cents per share (2009: HK1.6 cents), the total dividend for the year ended 31 December 2010 is HK10.6 cents per share (2009: HK10.1 cents).

The final scrip dividend is conditional upon the passing of the resolution relating to the payment of final dividend at the forthcoming annual general meeting of the Company ("AGM") and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the final scrip dividend.

A circular containing details of the scrip dividend together with an election form will be despatched to Shareholders in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 12 May 2011 to 18 May 2011, 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 Queens's Road East, Wanchai, Hong Kong before 4:30 p.m. on 11 May 2011.

FINANCIAL REVIEW

The financial year of 2010 represents another record profit year for the Company on the heels of the record profit year of 2009. The significant growth in our sales revenue together with our rigorous cost control measures, as in the past, made 2010 a truly unique year for the Group. The Group also decided to raise its prices across the board toward the end of 2010 upon which we have the confidence to project our business for the future.

Riding on the robust expansion of the Chinese economy of approximately 9% per annum in 2010, the Company took the opportunity to expand aggressively on the sales fronts. Overall, our same store sales growth for the entire 2010 has provided the Group with a very satisfactory growth rate of 20.5%. The Group also generated significant growth from the new store outlets.

In light of the evolving revenue mixes, the Group has decided to reclassify the increasing non-core products (furniture items sourced to supplement Royal Furniture's various product series) income into the mainstream entry of gross profit. This was previously recorded as accessories income, a part of "Other Income and Gains" in the past. The change added HK$56.5 million to gross profit. Accordingly, adjustments in both the sales revenue and cost of sales of the non-core products of HK$238.4 million and HK$181.9 million respectively were required to reflect the change in classification. For comparison purposes, the 2009 figures have been adjusted to reflect an increase in sales of HK$203.8 million, cost of sales of HK$152.6 million and gross profit of HK$51.2 million.

MANAGEMENT DISCUSSION & ANALYSIS

For the year under review, the Group's revenue increased by 35.6% to HK$1,210.0 million (2009: HK$892.2 million) due to both the Group's aggressive expansion plan and the positive macro-economic environment. While gross profit rose 30.1% to HK$372.8 million (2009: HK$286.6 million), gross profit margin dropped 1.3 percentage points to 30.8% due to the growing direct material costs which boosted the overall cost of sales.

The Group's stringent cost control policies implemented in the past two years continue to yield fruitful results as they helped to contain the ever-increasing cost of sales during 2010 which was attributed mainly to the escalating prices on direct materials and to hiking wages of direct labor. The cost control measures also helped to contain the growth of selling and distributing costs and administrative expenses, resulting with record low percentages of these expenses against the total revenue. As a result, the Group was able to achieve another record net profit of HK$181.3 million (2009: HK$130.5 million) which represents an increase of 38.9%. Excluding the non cash item of share option expense amounted to HK$15.2 million (2009: HK$3.0 million), the Group's net profit would have increased 47.2% to HK$196.5 million (2009: HK$133.5 million).

BUSINESS REVIEW

Sales Management

In the year under review, the Group has been growing its business across many fronts. First and foremost we have focused our sales strategy on the same store sales growth amongst our franchisee stores. During the first half of 2010, we implemented the "Sofa Week" campaign in which we have successfully promoted our sofa products across our franchise store network. This one-off promotion exercise gives us strong confidence that we could successfully launch similar campaigns with other products or mixes of products in the coming years.

Similarly, the same store sales growth of our self-operating stores also grew by leaps and bounds due to our strategy of reshuffling the product mix in which we have enlarged stores' space for selling more premium furniture products like Phoenix. This initiative has led to an unprecedented rate of same store sales growth among our self-operating stores. It has also helped improve the gross profit margin of our self operating stores which has mitigated the effect of escalating prices of direct materials.

The Group has increased the number of outlets by 345 stores, comprising 325 franchised stores and 20 self-operating stores, to a total of 1,723 compared to a decrease of 22 stores in 2009. We have used a two-pronged strategy to grow sales revenue. For the first and second tier cities, the Group has launched the new product series such as "Jessica" and "Phoenix" to entice the existing franchisee dealers to open more stores. We also work with franchisees to promote our more affordable product series at the third and fourth tier cities as well as promoting the most popular product lines in the lower tier cities to attract new franchisees to open new stores in these uncharted territories.

By the end of 2010, we decided to raise our wholesale prices by 9% for all product series, as one of the first-movers in China furniture industry, to offset the increasing cost of direct materials and wage which adversely affected our gross profit margin.

Product Development and Management

The Group has launched three new product series in 2010 compared to only one in 2009. The "Jessica" series was launched in March whereas the "Louis Palace" and "Butterfly" series were launched in September. Both "Jessica" and "Butterfly" are made of panel wood with trendy designs. "Louis Palace", just as its name suggests, is fashioned in late baroque style from traditional hardwood.

The Group since its early days is renowned for its product designs. This competitive strength however has been challenged by ongoing counterfeit production. Over the years, we have been working hand in hand with our major franchisees to counter these illegal acts. Noteworthy here, in late 2010, the Group has seized more than 500 beds and mattresses in Suzhou which were falsely labeled with the Royal Furniture brand and copying our designs. Following this incident, the Group has implemented anti-piracy measures such as setting up dedicated phone numbers to which for consumers could call and verify the authenticity of Royal Furniture's products with the specified code on the products.

Production Management

For the year under review, the value of production generated directly from our three factory plants has increased significantly due to our increased sales volume. This expansion of production scale allows us to achieve much better economies of scale which offset some of the increased cost of the direct materials. In additions, our enlarged production scale in 2010 affords us the opportunity to bargain for better unit prices on the direct materials to offset a certain extent of the increased cost.

In light of the fact that the production capacity is approaching its limitation, the Group has been actively planning for new production facilities in two regions outside Guangdong. Toward the end of 2010, we entered into a joint venture agreement with a local partner to take up an equity stake of 55% of a new factory plant to be built in the Wuqing District of Tianjin occupying 400 mu of land. This plant is expected to focus more on the production of bulky products such as hardwood furniture and sofa. In addition to Tianjin, the Group also intends to expand its production facility into Nanchang, Jiangxi which would focus more on panel wood products. Upon reaching full production over the next several years, both of these new factories will increase the Group's current production capacity by another 150%.

Human Resource Management

To complement our growth strategy the Group has been actively recruiting all levels of management staff to support our long term expansion plan. In 2010 we recruited over 80 university graduates across China as management trainees to whom we have provided in-house and on-the-job training. They are now working with experienced managers in servicing our franchisees and supporting our daily operation. Moreover, the Group has recruited a number of senior executives from other major consumer and industrial groups in China. These new and seasoned managers would certainly bring new ideas and enthusiasm into the Group as we move forward with our expansion plan.

Business Acquisition and Investment

At the beginning of 2010, the Group acquired a 50% equity stake in Beijing Yufa Jiaju Co. Ltd. ("Beijing Yufa"), a manufacturer of the Group's "Phoenix" product series. Since then, Beijing Yufa has added another production line at our Yonghe Factory in Guangzhou, near the Group's main factory in Shitan, enabling the Group to better serve the market in both eastern and southern China. The acquisition of Beijing Yufa has been subsequently proven to be a strategic fit for the Group since it has contributed significantly to our growth in both revenue and profit.

In mid-2010, the Group took up another 16.5% equity stake in Signature Industry Limited, its sofa manufacturing subsidiary, in addition to the 71% already owned by the Group, bringing the stake to 87.5% in total. This additional ownership enables the Group to further consolidate control over the design and production of this key subsidiary which has been growing significantly since the previous year due to the "Sofa Week" initiative.

The Group has also acquired a 100% equity interest in Beauty City Holdings Limited which owns a piece of land adjacent to its Guangzhou Zengcheng office and show room. With this land, the Group intends to build a campus center composed of training, conference and exhibition facilities as well as office space and lodging quarters for servicing its customers and franchisee partners to better implement our future growth strategy.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a cash and cash equivalents amounted to HK$238.2 million as at 31 December 2010 (2009: HK$113.7 million). Although the Group is principally financed by cash flow from operating activities, it has raised HK$227 million in gross proceeds from placement of newly issued shares to various investors in light of its expansion plan in the coming year.

As at 31 December 2010, except for the interest bearing loans amounted to HK$95.2 million (2009: HK$26.1 million), the Group has no other bank borrowings and contingent liabilities. As at the year end, the net debt divided by capital plus net debt of the Group was 5.6% (2009: 10.2%). This represents a very low gearing ratio. Approximately, 69.3% of the Group's cash was denominated in Renminbi with the remaining balance denominated in Hong Kong Dollars. The exposure to currency exchange rate fluctuation has been minimal since both our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2010, the liquidity of the Group has improved as its current ratio (current assets to current liabilities) has increased to 1.88 (2009: 1.73) and the net current assets has surged to HK$315.3 million (2009: HK$163.6 million).

PROSPECTS

The Government's continuous austerity measures are aimed at cooling the property market, particularly in the first and second tier cities. These measures would result in deferring property purchase decisions by the potential home buyers and hence down the road, home furniture products. However, the measures are not intended to dampen the property market in the third or fourth tier cities and county townships. Besides, the Central Government also announced its plan to build up to 10 million units of affordable housing for people in 2011 alone. This policy development is an encouraging message for the Group since some of our affordable product series are well aligned with demand of the potential residents.

The Government's urbanization policy in fact provides incentives for the rural Chinese citizens to migrate into the county townships where housing is in great demand. Thus, the property markets are expected to continue to grow in China's lower tier cities. The Group intends to capture this expanding market and will work with its franchisees to implement the growth strategy.

After the Beijing 2008 Olympic Games, the Group won the contract as the exclusive supplier of furniture products to the 26th Summer Universiade to be held at Shenzhen in 2011. With the scale and prestige only second to the Olympic Games, the Universiade will serve as a warm-up competition for a number of the world's top athletes before the London 2012 Olympic Games. The Group is currently reconfiguring its production plan to gear toward the demand of the purchase orders which are at a final stage of negotiation. The delivery and installation of our products for the Universiade is expected to be in late June or early July of 2011.

The Group has a positive view toward the year of 2011. Given the raised wholesale price of 9% at the end of 2010, it is expected with a same store sales growth rate of at least that much for 2011. With similar effort on growing the volume of the same store sales just as 2010, the Group should have a very respectful rate on overall same store sales growth. Likewise, the Group intends to step up our effort in increasing the growth rate of our new store outlets in 2011 from that of 2010. Overall for the domestic market in China, the Group intends to launch new home products based on the concept of "Royal Home" instead of concentrating on furniture products alone as in the past. Our export business though small in the past, looks promising as new sales orders received for the first three months of 2011 are higher than those in prior years.

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, the Chief Operating Officer, and senior management.

Chairman, Chief Executive Officer and Chief Operating Officer

The roles of Chairman of the Board, Chief Executive Officer and Chief Operating 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 overall management and mapping our growth strategy. The Chief Operating Officer of the Company is Mr. Zeng Lejin, an Executive Director, who is responsible for the day-to-day management, administration and operation of the Company.

Board Composition

The directors of the Company (the "Directors") during the year were:

Executive Directors:
Mr. Tse Kam Pang
Mr. Ma Gary Ming Fai
Mr. Zeng Lejin *(appointed on 19 April 2010)*
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 the Directors and other senior management are disclosed in the section headed "Management Profile" on Pages 17 to 18 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 five 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 2010	Number of meetings attended
Mr. Tse Kam Pang *(Chairman)*	5	5
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*	5	5
Mr. Zeng Lejin *(appointed on 19 April 2010, Chief Operating Officer)*	5	5
Mr. Lam Toi	5	5
Dr. Donald H. Straszheim	5	4
Mr Chang Chu Fai J. Francis	5	5
Mr. Yau Chung Hong	5	5

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

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 2010. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	Number of Audit Committee meetings held in 2010	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 2010, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2009 and the interim results for the six months ended 30 June 2010 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 2009. The Committee approved the auditor's remuneration and carried out assessment of their independence. During 2010, there was no disagreement between the Board and the 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 2010. Details of the members attendance record in the year are as follows:

Directors Attendance

Name	Number of Remuneration Committee meetings held in 2010	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 2010 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 in 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.

All newly appointed Director will be provided with 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.

During the year, Mr. Zeng Lejin was appointed as an Executive Director of the Company.

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 2010, 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 finance 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 27 and 28 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 2010 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 detailed procedures for conducting a poll will be explained at each general meetings. 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

DIRECTORS

Executive Directors

Mr. TSE Kam Pang, aged 56, 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 47, 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 40, is the Chief Operating Officer of the Company. He 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 48, 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 69, is the 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. 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 the 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 56, was appointed as 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-three 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 41, 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 50, is the Chief Financial Officer of the Group. He has more than 26 years of professional experience in corporate finance and accounting. Before joining the Company, 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. 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 39, 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 37, 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 2010 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 18 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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 108.

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 HK9.0 cents per ordinary share (note 12) in respect of the year, to shareholders whose names appear on the register of members on 11 May 2011. The Board also proposed to offer a scrip dividend alternative to allow shareholders to elect to receive such final dividend wholly in the form of new fully paid shares instead of in cash. 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				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**1,210,005**	892,234	1,013,844	827,381	644,427
PROFIT/(LOSS) BEFORE TAX	**204,127**	134,177	(87,238)	54,403	23,411
Tax	**(13,422)**	(3,711)	(2,302)	(2,091)	(307)
PROFIT/(LOSS) FOR THE YEAR	**190,705**	130,466	(89,540)	52,312	23,104
Attributable to:					
Owners of the Company	**181,253**	130,466	(89,626)	50,406	23,104
Non-controlling interests	**9,452**	–	86	1,906	–
	190,705	130,466	(89,540)	52,312	23,104
ASSETS AND LIABILITIES					
Non-current assets	**808,888**	483,351	473,658	518,784	344,021
Current assets	**672,933**	388,744	301,651	329,476	252,885
Current liabilities	**(357,640)**	(225,140)	(310,403)	(292,222)	(204,878)
Non-current liabilities	**(23,752)**	(24,601)	(10,645)	(17,767)	(17,464)
Net Assets	**1,100,429**	622,354	454,261	538,271	374,564

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 30 and 31 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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$107.4 million of which HK$66.4 million has been proposed as interim and final dividend for the year. In addition, the Company's share premium account, in the amount of HK$578.9 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. (2009: HK$Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 11.09% of the total sales for the year and sales to the largest customer included therein amounted to 3.14%. Purchases from the Group's five largest suppliers accounted for approximately 22.74% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 5.97%.

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. Zeng Lejin *(appointed on 19 April 2010, Chief Operating 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 J. 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 17 and 18 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 agreement 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. Mr. Zeng Lejin, has entered into a service agreement with the Company for a term of two years commencing from 19 April 2010, 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

None of the Directors had a material interest in any contract of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, 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)	16,386,910	228,820,110	245,207,020	38.44
Mr. Ma Ming Fai, Gary	(b), (d)	13,321,000	2,697,000	16,018,000	2.51
Mr. Zeng Lejin	(c), (d)	4,620,000	–	4,620,000	0.72
Dr. Donald H. Straszheim	(d)	1,000,000	–	1,000,000	0.16
Mr. Chang Chu Fai J. Francis	(d)	750,000	–	750,000	0.12

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) The 2,020,000 Shares are directly beneficially owned by Zeng Lejin.

(d) These represent Shares to be issued upon exercise of the share options granted to them, details of which are set out in note 31 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 2010, 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 31 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 2010, 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	16.80%
Charming Future	(b)	Directly beneficially owned	121,645,110	19.07%

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 2010, 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 or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Value Partners Limited, becomes the substantial shareholder of the Group after it purchased 3,162,000 shares at the average price of HK$2.792 from HKEx on 17 March 2011. Value Partners Limited was interested in 5.05% of the issued share capital of the Company as at the report date.

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 2010 was 3,800 (2009: 2,500). 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 2010, there were 54,224,910 outstanding share options.

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 10 to 16.

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 2010 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.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 40 to the financial statements.

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
29 March 2011

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 consolidated financial statements of Royale Furniture Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 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 disclosure requirements of the Hong Kong Companies Ordinance.

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

29 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
REVENUE	5	**1,210,005**	892,234
Cost of sales		**(837,213)**	(605,626)
Gross profit		**372,792**	286,608
Other income and gains	5	**17,488**	11,181
Selling and distribution costs		**(127,459)**	(105,936)
Administrative expenses		**(61,541)**	(57,215)
Other expenses		**–**	(2,649)
Finance costs	7	**(3,483)**	(1,164)
Share of profits of associates		**6,330**	3,352
PROFIT BEFORE TAX	6	**204,127**	134,177
Income tax expense	10	**(13,422)**	(3,711)
PROFIT FOR THE YEAR		**190,705**	130,466
Attributable to:			
Owners of the Company		**181,253**	130,466
Non-controlling interests		**9,452**	–
		190,705	130,466
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK32.80 cents**	HK29.53 cents
Diluted		**HK31.17 cents**	HK28.99 cents

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 2010

	Notes	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**190,705**	130,466
OTHER COMPREHENSIVE INCOME			
Changes in fair value of available-for-sale investments, net of tax	20	**(976)**	–
Exchange differences on translation of foreign operations		**22,786**	4,718
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**21,810**	4,718
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**212,515**	135,184
Attributable to:			
Owners of the Company		**203,008**	135,184
Non-controlling interests		**9,507**	–
		212,515	135,184

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**520,329**	386,200
Prepaid land lease payments	15	**93,698**	38,289
Goodwill	16	**64,427**	–
Intangible assets	17	**3,178**	3,972
Investments in associates	19	**49,910**	46,458
Available-for-sale investments	20	**7,456**	8,432
Other non-current assets	21	**69,890**	–
Total non-current assets		**808,888**	483,351
CURRENT ASSETS			
Inventories	22	**215,370**	118,844
Trade receivables	23	**54,569**	29,950
Prepayments, deposits and other receivables	24	**164,795**	112,255
Derivative financial instruments		**–**	14,000
Cash and cash equivalents	25	**238,199**	113,695
Total current assets		**672,933**	388,744
CURRENT LIABILITIES			
Trade payables	26	**101,928**	72,921
Other payables and accruals	27	**105,308**	84,657
Interest-bearing bank loans	28	**72,288**	1,498
Tax payable		**78,116**	66,064
Total current liabilities		**357,640**	225,140
NET CURRENT ASSETS		**315,293**	163,604
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,124,181**	646,955

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,124,181**	646,955
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	28	**22,903**	24,601
Deferred tax liabilities	29	**849**	–
Total non-current liabilities		**23,752**	24,601
Net assets		**1,100,429**	622,354
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**63,788**	46,676
Reserves	32(a)	**956,971**	525,680
Proposed final dividend	12	**57,409**	45,470
		1,078,168	617,826
Non-controlling interests		**22,261**	4,528
Total equity		**1,100,429**	622,354

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the Company										
	Notes	Issued capital HK$'000 (Note 30)	Share premium account HK$'000	Share option reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'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
Profit for the year		–	–	–	–	–	–	130,466	–	130,466	–	130,466
Other comprehensive income for the year:		–										
Exchange differences on translation of foreign operations		–	–	–	–	–	4,718	–	–	4,718	–	4,718
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	31	–	–	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the Company										
	Notes	Issued capital HK$'000 (Note 30)	Share premium account HK$'000	Share option reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		46,676	204,037	3,036	–	–	98,532	220,075	45,470	617,826	4,528	622,354
Profit for the year		–	–	–	–	–	–	181,253	–	181,253	9,452	190,705
Other comprehensive income for the year:		–	–	–	–	–	–	–	–	–	–	–
Change in fair value of available-for-sale investment, net of tax		–	–	–	(976)	–	–	–	–	(976)	–	(976)
Exchange differences on translation of foreign operations		–	–	–	–	–	22,731	–	–	22,731	55	22,786
Total comprehensive income for the year		–	–	–	(976)	–	22,731	181,253	–	203,008	9,507	212,515
Final 2009 dividend declared		–	–	–	–	–	–	(2,056)	(45,470)	(47,526)	–	(47,526)
Acquisition of a subsidiary		6,818	68,180	–	–	–	–	–	–	74,998	12,754	87,752
Acquisition of non-controlling interests	18	2,419	49,581	–	–	–	–	(47,472)	–	4,528	(4,528)	–
Equity-settled share option expense	31	–	–	15,161	–	–	–	–	–	15,161	–	15,161
Share options exercised	30	375	2,249	(674)	–	–	–	–	–	1,950	–	1,950
Issue of shares	30	7,500	219,750	–	–	–	–	–	–	227,250	–	227,250
Share issue expenses	30	–	(10,065)	–	–	–	–	–	–	(10,065)	–	(10,065)
Interim 2010 dividend declared	12	–	–	–	–	–	–	(8,962)	–	(8,962)	–	(8,962)
Proposed final 2010 dividend	12	–	–	–	–	–	–	(57,409)	57,409	–	–	–
Transfer from retained profits		–	–	–	–	2,426	–	(2,426)	–	–	–	–
At 31 December 2010		63,788	533,732*	17,523*	(976)*	2,426*	121,263*	283,003*	57,409	1,078,168	22,261	1,100,429

* These reserve accounts comprise the consolidated reserves of HK$956,971,000 (2009: HK$525,680,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**204,127**	134,177
Adjustments for:			
Finance costs	7	**3,483**	1,164
Share of profits of associates		**(6,330)**	(3,352)
Bank interest income	5	**(346)**	(367)
Interest income from an associate	5	**(2,117)**	–
(Gain)/loss on disposal of items of property, plant and equipment	6	**(117)**	34
Depreciation	6	**45,919**	41,085
Recognition of prepaid land lease payments	6	**1,397**	880
Amortisation of intangible assets	6	**931**	906
Foreign exchange loss, net	6	**31**	45
Equity-settled share option expense		**15,161**	3,036
		262,139	177,608
Increase in inventories		**(90,250)**	(7,237)
(Increase)/decrease in trade receivables		**(14,053)**	36,594
Increase in prepayments, deposits and other receivables		**(15,041)**	(29,169)
Increase/(decrease) in trade payables		**28,082**	(13,573)
Decrease in other payables and accruals		**(17,336)**	(48,200)
Increase in amount due from an associate		**(1,213)**	(5,566)
(Decrease)/increase in amount due to an associate		**(2,454)**	2,454
Cash generated from operations		**149,874**	112,911
Income taxes paid		**(1,381)**	(2)
Net cash flows from operating activities		**148,493**	112,909

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,463**	367
Loan to an associate		**(24,840)**	(5,536)
Purchases of items of property, plant and equipment		**(227,190)**	(29,748)
Additions to prepaid land lease payments	15	**(26,794)**	(1,342)
Proceeds from disposal of items of property, plant and equipment		**4,256**	1,333
Acquisition of subsidiaries	33	**1,469**	–
Purchase of available-for-sale investment		**–**	(8,432)
Proceeds from disposal/(purchase) of the derivative financial instruments		**14,000**	(14,000)
Net cash used in investing activities		**(256,636)**	(57,358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**229,200**	42,009
Share issue expenses	30	**(10,065)**	–
New bank loans		**70,590**	16,000
Repayment of bank loans		**(1,498)**	(29,243)
Interest paid		**(3,483)**	(1,164)
Dividends paid		**(56,488)**	(12,136)
Net cash flows from financing activities		**228,256**	15,466
NET INCREASE IN CASH AND CASH EQUIVALENTS		**120,113**	71,017
Cash and cash equivalents at beginning of year		**113,695**	40,414
Effect of foreign exchange rate changes, net		**4,391**	2,264
CASH AND CASH EQUIVALENTS AT END OF YEAR		**238,199**	113,695
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**238,199**	113,695
Cash and cash equivalents as stated in the statement of financial position		**238,199**	113,695
Cash and cash equivalents as stated in the statement of cash flows		**238,199**	113,695

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**748,474**	352,659
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**10,066**	10,161
Cash and cash equivalents	25	**262**	4,788
Total current assets		**10,328**	14,949
CURRENT LIABILITIES			
Other payables and accruals	27	**200**	200
NET CURRENT ASSETS		**10,128**	14,749
Net assets		**758,602**	367,408
EQUITY			
Issued capital	30	**63,788**	46,676
Reserves	32(b)	**637,405**	275,262
Proposed final dividend	12	**57,409**	45,470
Total equity		**758,602**	367,408

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, Cayman Islands.

The principal activity of the Company is investment holding. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the ultimate holding companies of the Group are Crisana International Inc. and Charming Future Holding Limited, respectively, 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 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

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

Basis of consolidation from 1 January 2010 (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.1 BASIS OF PREPARATION (Continued)

Change in the presentation of revenue

In prior years, the net profit from the sales of non-core products was recorded as accessories income, a part of "Other income and gains".

In the current year, in light of the evolving revenue mixes, the Group has reclassified the accessories income from "Other income and gains" to the mainstream entry "Gross profit" in order to provide more relevant information in respect of the Group's operations and to conform with market practices. The revenue from the sales of accessories and the related cost of sales are not offset and are presented separately as "Revenue" and "Cost of sales" in the consolidated income statement within revenue and costs.

The effects of the change in the presentation have been accounted for retrospectively with comparative figures restated. The specific line items affected are as follows:

	2010 **HK$'000**	2009 HK$'000
Increase in revenue	**238,455**	203,793
Increase in cost of sales	**181,986**	152,628
Increase in gross profit	**56,469**	51,165
Decrease in other income and gains	**56,469**	51,165

The change does not have any impact on the results of the Group in respect of the current and prior years.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

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

HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes 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. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[2]
HKFRS 12 Amendment	Amendment to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[6]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments:* Disclosures — *Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments:* Presentation — *Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2013
[6] Effective for annual periods beginning on or after 1 January 2012

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 investments in subsidiaries are stated at cost less any impairment losses.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

The Group's investments 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 investments 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 investments 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 receivables. The Company's investments in associates are treated as non-current assets and are stated at cost less impairment losses.

Business combination and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill (Continued)

Business combinations from 1 January 2010 (Continued)

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill (Continued)

Business combinations prior to 1 January 2010 but after 1 January 2005 (Continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

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 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

  (i) 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

  (ii) 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. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets 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 licenses

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 8 to 10 years.

Computer software

The purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Research and development costs

All research costs are charged to the income statement as 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, including prepaid land lease payments under 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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.

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 or available-for-sale financial investments, 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 cash equivalents, trade and other receivables, available-for-sale investments and derivative financial instruments.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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.

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 by 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 market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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 in the 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. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 on;

- 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 recognises 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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 judgement. "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 loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Loans and borrowings

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.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

- 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, further details of which are given in note 31 to the financial statements.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

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 benefit 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 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.

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 of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 2010 was HK$64,427,000 (2009: Nil). Further details are given in note 16 to the financial statements.

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 to the financial statements. The recoverable amount of items 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.

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the options, volatility and dividend yield and making assumptions about them. The assumptions and models used for the estimation of the fair value for share-based payments are disclosed in note 31 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments 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;

4. OPERATING SEGMENT INFORMATION (Continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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.

Year ended 31 December 2010	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Segment revenue:			
Sales to external customers	997,354	212,651	1,210,005
Intersegment sales	112,247	–	112,247
Other revenue	14,623	402	15,025
	1,124,224	213,053	1,337,277
Reconciliation:			
Elimination of intersegment sales			(112,247)
Revenue			1,225,030
Segment results	190,533	27,222	217,755
Reconciliation:			
Interest income			2,463
Corporate and other unallocated expenses			(12,608)
Finance costs			(3,483)
Profit before tax			204,127

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2010	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Segment assets	1,185,802	66,099	1,251,901
Reconciliation:			
Elimination of intersegment receivables			(70,491)
Corporate and other unallocated assets			300,411
Total assets			1,481,821
Segment liabilities	231,249	14,759	246,008
Reconciliation:			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			135,384
Total liabilities			381,392
Other segment information			
Share of profits of associates	6,330	–	6,330
Depreciation and amortisation	41,472	6,775	48,247
Investments in associates	39,804	10,106	49,910
Capital expenditure*	240,494	13,490	253,984

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2009	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Segment revenue:			
Sales to external customers	743,178	149,056	892,234
Intersegment sales	70,756	—	70,756
Other revenue	10,814	—	10,814
	824,748	149,056	973,804
Reconciliation:			
Elimination of intersegment sales			(70,756)
Revenue			903,048
Segment results	128,820	18,354	147,174
Reconciliation:			
Interest income			367
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
Other segment information			
Share of profits of associates	3,259	93	3,352
Depreciation and amortisation	38,194	4,677	42,871
Investments in associates	36,352	10,106	46,458
Capital expenditure	27,482	3,608	31,090

4. OPERATING SEGMENT INFORMATION (Continued)

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:

	2010	2009
	HK$'000	HK$'000
Revenue		
Sale of goods	**1,210,005**	892,234
Other income and gains		
Bank interest income	**346**	367
Gain on disposal of items of property, plant and equipment	**117**	–
Interest income from an associate	**2,117**	–
Reversal of impairment of trade receivables	**2,660**	–
Sales of scrap	**12,248**	10,814
	17,488	11,181

6. PROFIT BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**837,213**	605,626
Depreciation of items of property, plant and equipment		**45,919**	41,085
Recognition of prepaid land lease payments		**1,397**	880
Amortisation of intangible assets*		**931**	906
(Gain)/loss on disposal of items of property, plant and equipment		**(117)**	34
Research and development costs*		**6,416**	6,155
Minimum lease payments under operating leases:			
Land and buildings		**54,406**	42,793
Auditors' remuneration		**1,920**	1,880
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**143,538**	95,659
Equity-settled share option expense		**12,223**	2,518
Pension scheme contributions		**2,615**	1,939
		158,376	100,116
(Reversal of impairment)/impairment of trade receivables	23	**(2,660)**	7,453
Foreign exchange difference, net		**31**	45
Write-down/(reversal of write-down) of inventories to net realisable value**		**1,084**	(9,310)
Bank interest income	5	**(346)**	(367)
Interest income from an associate	5	**(2,117)**	–

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

** The write-down/(the reversal of write-down) of inventories to net realisable value are included in the "Cost of Sales" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on bank loans:		
Wholly repayable within five years	**2,801**	67
Wholly repayable over five years	**682**	1,097
	3,483	1,164

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 (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Fees	**1,892**	1,692
Other emoluments:		
Salaries, allowances and benefits in kind	**9,344**	7,752
Equity-settled share option expense	**2,938**	518
Performance related bonuses	**–**	1,076
	14,174	11,038

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

Group	2010 Fees HK$'000	2010 Equity-settled share option benefits HK$'000	2009 Fees HK$'000	2009 Equity-settled share option benefits HK$'000
Dr. Donald H. Straszheim	312	86	312	68
Mr. Yau Chung Hong	240	86	240	68
Mr. Chang Chu Fai, Johnson. Francis	240	86	240	68
	792	258	792	204

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(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
2010					
Executive directors:					
Mr. Tse Kam Pang	300	3,300	–	2,594	6,194
Mr. Lam Toi	300	2,592	–	–	2,892
Mr. Ma Ming Fai, Gary	300	2,592	–	86	2,978
Mr. Zeng Le Jin	200	860	–	–	1,060
	1,100	9,344	–	2,680	13,124

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors (Continued)

	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

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 four (2009: three) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the non-director, highest paid employee for the year are as follows:

	Group **2010** **HK$'000**	Group 2009 HK$'000
Salaries, allowances and benefits in kind	**675**	1,433
Performance related bonuses	**30**	95
Equity-settled share option expense	**636**	–
Pension scheme contributions	**9**	12
	1,350	1,540

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	1	2

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

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 (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2010	2009
	HK$'000	HK$'000
Group:		
Current — PRC corporate income tax	**13,433**	3,711
Deferred	**(11)**	–
	13,422	3,711

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the applicable rates for the jurisdictions 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			
	2010		2009	
	HK$'000	**%**	HK$'000	%
Profit before tax	**204,127**		134,177	
Tax at the applicable tax rate at 25% (2009: 25%)	**51,032**	**25.0**	33,544	25.0
Lower income tax rates for specific provinces or enacted by local authority	**(38,189)**	**(18.8)**	(38,116)	(28.4)
Profits and losses attributable to associates	**(1,044)**	**(0.5)**	(553)	(0.4)
Income not subject to tax	**(665)**	**(0.3)**	(792)	(0.6)
Expenses not deductible for tax	**327**	**0.2**	656	0.5
Tax losses not recognised	**4,684**	**2.3**	8,972	6.7
Tax losses utilised	**(2,723)**	**(1.3)**	–	–
Tax charge at the Group's effective rate	**13,422**	**6.6**	3,711	2.8

The share of tax attributable to associates amounting to HK$2,506,000 (2009: HK$1,225,000), is included in "Share of profits of associates" in the consolidated income statement.

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$47,089,000 (2009: HK$46,926,000) 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 2010.

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

10. INCOME TAX (Continued)

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.

The current year income tax rate for Wanlibao, Simply and Fufa was 25%. The tax rate for Yufa and Fuli was 12.5% as they were in their third profit-making year.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of HK$86,388,000 (2009: profit of HK$60,253,000), which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	Group	
	2010	2009
	HK$'000	HK$'000
Interim — HK1.6 cents (2009: HK1.6 cents) per ordinary share	**8,962**	7,468
Proposed final — HK9.0 cents (2009: HK8.5 cents) per ordinary share	**57,409**	45,470
	66,371	52,938

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 PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 552,586,833 (2009: 441,770,528) in issue during the year.

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

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

	2010	2009
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**181,253**	130,466

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**552,586,833**	441,770,528
Effect of dilution — weighted average number of ordinary shares:		
Share options	**28,867,649**	8,304,000
	581,454,482	450,074,528

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 2010							
At 31 December 2009 and at 1 January 2010:							
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
At 1 January 2010, net of accumulated depreciation	306,445	4,591	60,258	2,851	3,558	8,497	386,200
Additions	4,375	15,976	19,263	2,491	2,928	112,267	157,300
Acquisition of subsidiaries (note 33)	–	1,270	2,169	136	188	9,567	13,330
Disposals	–	(355)	(1,624)	(32)	(243)	(1,885)	(4,139)
Depreciation provided during the year	(20,753)	(7,762)	(14,142)	(1,493)	(1,769)	–	(45,919)
Transfers	18,571	–	1,866	–	–	(20,437)	–
Exchange realignment	9,729	220	2,291	104	110	1,103	13,557
At 31 December 2010, net of accumulated depreciation	318,367	13,940	70,081	4,057	4,772	109,112	520,329
At 31 December 2010:							
Cost or valuation	399,645	29,237	151,316	17,418	15,951	109,112	722,679
Accumulated depreciation	(81,278)	(15,297)	(81,235)	(13,361)	(11,179)	–	(202,350)
Net carrying amount	318,367	13,940	70,081	4,057	4,772	109,112	520,329
Analysis of cost or valuation:							
At cost	–	29,237	151,316	17,418	15,951	109,112	323,034
At valuation	399,645	–	–	–	–	–	399,645
	399,645	29,237	151,316	17,418	15,951	109,112	722,679

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 2009							
At 31 December 2008 and at 1 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	–	15,159	128,934	14,487	13,272	8,497	180,349
At valuation	365,180	–	–	–	–	–	365,180
	365,180	15,159	128,934	14,487	13,272	8,497	545,529

At 31 December 2010, certain of the Group's buildings with a net carrying amount of approximately HK$62,699,000 (2009: HK$26,482,000) were pledged to secure general banking facilities granted to the Group (note 28).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**38,289**	38,652
Additions during the year	**26,794**	1,342
Acquisition of a subsidiary (note 33)	**29,960**	–
Recognised during the year	**(1,397)**	(880)
Exchange realignment	**2,227**	–
Carrying amount at 31 December	**95,873**	39,114
Current portion included in prepayments, deposits and other receivables	**(2,175)**	(825)
Non-current portion	**93,698**	38,289

The Group's leasehold lands are situated in Mainland China and are held under the following lease terms:

	2010	2009
	HK$'000	HK$'000
Long term lease	**51,625**	38,289
Medium term lease	**42,073**	–
	93,698	38,289

16. GOODWILL

	HK$'000
At 1 January 2009 and 31 December 2009:	
Cost	116,345
Accumulated impairment	(116,345)
Net carrying amount	–
Cost at 1 January 2010, net of accumulated impairment	–
Acquisition of subsidiaries (note 33)	64,427
Cost and net carrying amount at 31 December 2010	64,427
At 31 December 2010:	
Cost	180,772
Accumulated impairment	(116,345)
Net carrying amount	64,427

Impairment testing of goodwill

Goodwill acquired through business combinations is related to the franchise operation cash-generating units for impairment testing.

The recoverable amount of the franchise operation cash-generating units was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15% and cash flows beyond the five-year period were extrapolated using a growth rate of 10%.

Key assumptions were used in the value in use calculation of the franchise operation cash-generating units for 31 December 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

17. INTANGIBLE ASSETS

Group

	Licence rights of trademarks	
	2010	2009
	HK$'000	HK$'000
At 1 January:		
Cost	**8,018**	8,018
Accumulated amortisation	**(4,046)**	(3,138)
Net carrying amount	**3,972**	4,880
Cost at 1 January, net of accumulated amortisation	**3,972**	4,880
Acquisition of a subsidiary during the year (note 33)	**4**	–
Amortisation provided during the year	**(931)**	(906)
Exchange realignment	**133**	(2)
Cost at 31 December, net of accumulated amortisation	**3,178**	3,972
At 31 December:		
Cost	**8,022**	8,018
Accumulated amortisation	**(4,844)**	(4,046)
Net carrying amount	**3,178**	3,972

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**91,744**	91,744
Loans to subsidiaries	**648,964**	260,915
Capital contribution in respect of employee share-based compensation	**7,766**	–
	748,474	352,659

In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries directly or indirectly held by the Company as at 31 December 2010 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 Royal")	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	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacture and trading of furniture
Fufa*	PRC	Mainland China	Paid-up registered HK$26,000,000	–	100	Manufacture and trading of furniture
Simply*	PRC	Mainland China	Paid-up registered HK$18,000,000	–	100	Manufacture and trading of furniture
Yufa*	PRC	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
Fuli*	PRC	Mainland China	Ordinary HK$65,000,000	–	100	Manufacture and trading of furniture
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Investment holding
Signature Industries Limited ("Signature") ***	BVI	Mainland China	Ordinary HK$31,000,000	–	87.5	Manufacture and sale of sofas
Beijing Yufa Furniture Company Limited ("Beijing Yufa") **	PRC	Mainland China	Ordinary RMB2,000,000	–	50	Manufacture and sale of furniture
Beauty City Holdings Limited ("Beauty City")	BVI	Hong Kong	Ordinary HK$1	–	100	Investment holding

18. INVESTMENTS 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
Jiangxi Furun Furniture Company Limited	PRC	Mainland China	Ordinary RMB11,133,600	–	100	Manufacture and trading of furniture
Harbin Royal Furniture Company Limited	PRC	Mainland China	Ordinary RMB27,300,000	–	100	Sales of furniture

* These subsidiaries are registered as a wholly-foreign-owned enterprise under the PRC law.

** The Group has obtained additionally 20% voting power to appoint and remove the majority of the board of directors of Beijing Yufa based on the assignment of voting rights from one of the shareholders of Beijing Yufa to the Group. Hence, Beijing Yufa is controlled by the Group and is consolidated in the financial statements.

*** During the year, the Group further acquired the 16.5% equity interests in Signature by issuance of 24,186,000 shares of the Company, increasing its equity interest therein to 87.5%. The consideration is at a price of HK$2.15 per share.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN ASSOCIATES

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net assets	**24,824**	18,494
Goodwill on acquisition	**18,307**	18,307
	43,131	36,801
Due from an associate	**6,779**	12,111
Due to an associate	**–**	(2,454)
	49,910	46,458

Balances with an associate are unsecured, interest free and have no fixed terms of repayment.

19. INVESTMENTS IN ASSOCIATES (Continued)

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 Group's share holdings in the associates are held through two wholly-owned subsidiaries of the Company.

The financial years of the above associates are coterminous with those of the Group. All the above associates have been accounted for using the equity method in the financial statements.

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

	2010 HK$'000	2009 HK$'000
Assets	**97,971**	62,928
Liabilities	**13,532**	14,500
Revenue	**158,544**	96,743
Profit	**15,825**	8,809

20. AVAILABLE-FOR-SALE INVESTMENTS

	2010 HK$'000	2009 HK$'000
Listed equity investments, at fair value – Hong Kong	**7,456**	8,432

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$976,000 (2009: Nil).

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.

21. OTHER NON-CURRENT ASSETS

Other non-current assets represented the deposits for the purchase of new self-operating shops in Mainland China.

22. INVENTORIES

	Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**68,367**	37,449
Work in progress	**24,866**	9,123
Finished goods	**122,137**	72,272
	215,370	118,844

23. TRADE RECEIVABLES

	Group	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**63,811**	41,852
Impairment	**(9,242)**	(11,902)
	54,569	29,950

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.

23. TRADE RECEIVABLES (Continued)

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**28,037**	26,182
31 to 90 days	**14,343**	1,594
91 to 180 days	**6,797**	756
Over 180 days	**5,392**	1,418
	54,569	29,950

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**11,902**	4,449
Impairment losses recognised *(note 5)*	**–**	7,453
Reversal of impairment losses *(note 4)*	**(2,660)**	–
At 31 December	**9,242**	11,902

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

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**42,380**	27,776
One to three months past due	**6,797**	756
Over three months past due	**5,392**	1,418
	54,569	29,950

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.

23. TRADE RECEIVABLES (Continued)

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.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**24,716**	12,178	**–**	–
Deposits	**5,607**	3,435	**–**	–
Loans to an associate	**31,385**	–	**–**	–
Other receivables	**103,087**	96,642	**10,066**	10,161
	164,795	112,255	**10,066**	10,161

The loans to an associate are unsecured, bear interest at a rate of 7.5% per annum and have no fixed terms of repayment.

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.

25. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**238,199**	113,695	**262**	4,788

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$164,986,000 (2009: HK$38,455,000). 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. The bank balances are deposited with creditworthy banks with no recent history of default.

26. 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	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**78,838**	47,014
31 to 90 days	**21,241**	24,258
91 to 180 days	**456**	656
181 to 360 days	**227**	128
Over 360 days	**1,166**	865
	101,928	72,921

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

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**30,773**	23,788	**–**	–
Other payables	**64,920**	51,507	**200**	200
Accruals	**9,615**	9,362	**–**	–
	105,308	84,657	**200**	200

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

28. INTEREST-BEARING BANK LOANS

Group

	2010			2009		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Short term bank loans – secured	**5.31% per annum**	**2011**	**70,590**			
Current portion of long term bank loans – secured	**1.5% per annum below base lending rate ("BLR")**	**2011**	**875**	1.5% per annum below BLR	2010	845
Current portion of long term bank loans – secured	**HIBOR +1.75%**	**2011**	**823**	2.75% per annum below BLR	2010	653
			72,288			1,498
Non-current						
Secured bank loan	**HIBOR +1.75%**	**2012-2022**	**9,170**	2.75% per annum below BLR	2011-2022	9,992
Secured bank loan	**1.5% per annum below BLR**	**2012-2024**	**13,733**	1.5% per annum below BLR	2011-2022	14,609
			22,903			24,601
			95,191			26,099

	Group	
	2010	2009
	HK$'000	HK$'000
Analysed into:		
Within one year	**72,288**	1,498
In the second year	**1,729**	1,603
In the third to fifth years, inclusive	**5,385**	4,809
Beyond five years	**15,789**	18,189
	95,191	26,099

28. INTEREST-BEARING BANK LOANS (Continued)

Group (Continued)

A bank loan of the Group is secured by mortgages over the Group's buildings situated in Hong Kong and the Mainland China, which had an aggregate net book value at the end of the reporting period of approximately HK$62,699,000 (2009: HK$26,482,000).

The short term bank borrowing is denominated in RMB and the long term bank borrowings are in Hong Kong dollars.

Except for a short term secured bank loan which bears a fixed interest rate of 5.31% per annum, the interest rates of the remaining borrowings are floating.

29. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the year is as follows:

	Fair value adjustments arising from acquisition of a subsidiary HK$'000
At 1 January 2009 and 31 December 2009	–
Acquisition of a subsidiary (note 33(b))	860
Deferred tax credited to the income statement during the year (note 10)	(11)
Gross deferred tax liabilities at 31 December 2010	849

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future.

30. SHARE CAPITAL

	2010 HK$'000	2009 HK$'000
Authorised:		
2,000,000,000 (2009: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
637,877,000 (2009: 466,761,000) ordinary shares of HK$0.10 each	**63,788**	46,676

During the year, the movements in share capital were as follows:

(a) Pursuant to the sale and purchase agreement dated 4 January 2010 entered into between the Group and two independent investors, 68,180,000 shares were issued based on the price of HK$1.1 per share by the Company as a consideration to effect the acquisition of Beijing Yufa (note 33(a)).

(b) Pursuant to the sale and purchase agreement dated 10 May 2010 entered into between the Group and an independent investor, 24,186,000 shares were issued based on the price of HK$2.15 per share by the Company as a consideration to obtain a further acquisition of the non-controlling interest of Signature of 16.5% (note 18).

(c) The subscription rights attaching to 3,750,000 share options were exercised at the subscription price of HK$0.52 per share (note 31), resulting in the issue of 3,750,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$1,950,000. An amount of HK$674,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(d) On 14 December 2010, 75,000,000 shares were issued through a top-up placing arrangement at HK$3.03 per share, resulting in the issue of 75,000,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$227,250,000.

30. SHARE CAPITAL (Continued)

Summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2009	311,174,000	31,117	222,731	253,848
Issued of shares				
— open offer	155,587,000	15,559	26,450	42,009
At 31 December 2009 and 1 January 2010	466,761,000	46,676	249,181	295,857
Acquisition of a subsidiary (a)	68,180,000	6,818	68,180	74,998
Acquisition of non-controlling interests (b)	24,186,000	2,419	49,581	52,000
Share options exercised (c)	3,750,000	375	2,249	2,624
Issue of shares (d)	75,000,000	7,500	219,750	227,250
At 31 December 2010	637,877,000	63,788	588,941	652,729
Share issue expenses			(10,065)	(10,065)
At 31 December 2010	637,877,000	63,788	578,876	642,664

Share option

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. 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 the 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.

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 options 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.

31. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	At 1 January 2010	Exercise during the year	Granted during the year	Number of share options at 31 December 2010	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	1,000,000	–	–	1,000,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
Yau Chung Hong	1,000,000	(1,000,000)	–	–	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
Chang Chu Fai, Johnson. Francis	1,000,000	(250,000)	–	750,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
Ma Ming Fai, Gary	4,600,000	–	–	4,600,000	20/7/2009	20/7/2010 to19/7/2020	0.52	0.52
Tse Kam Pang	–	–	5,344,910	5,344,910	26/4/2010	26/4/2011 to 25/4/2021	2.20	2.20
Zeng Le Jin	4,600,000	(2,000,000)	–	2,600,000	20/7/2010	20/7/2010 to 19/7/2020	0.52	0.52
Others								
Members of senior management and other employees of the Group	25,400,000	(500,000)	–	24,900,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
	–	–	1,000,000	1,000,000	14/4/2010	14/4/2011 to 13/4/2021	1.78	1.78
	–	–	500,000	500,000	14/4/2010	1/10/2011 to 13/4/2021	1.78	1.78
	–	–	500,000	500,000	14/4/2010	1/4/2012 to 13/4/2021	1.78	1.78
	–	–	12,000,000	12,000,000	9/7/2010	9/1/2011 to 8/1/2021	2.12	2.12
	–	–	250,000	250,000	20/7/2010	20/7/2011 to 19/7/2021	2.10	2.08
	–	–	250,000	250,000	20/7/2010	20/7/2012 to 19/7/2021	2.10	2.08
	–	–	530,000	530,000	22/7/2010	22/7/2011 to 21/7/2021	2.26	2.26
In aggregate	37,600,000	(3,750,000)	20,374,910	54,224,910				

31. 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 weighted average share price for share options exercised during the year was HK$3.23 per share (2009: No share options were exercised).

The fair value of the share options granted during the year was HK$14,062,000 (HK$0.69 each) (2009: HK$6,756,000, HK$0.18 each).

The Group recognised a share option expense of HK$15,161,000 (2009: HK$3,036,000) for the year ended 31 December 2010.

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:

	2010	2009
Dividend yield (%)	**4.4**	4.17
Volatility (%)	**69.00**	63.50
Risk-free interest rate (%)	**0.50-0.69**	2.48
Expected life of options (year)	**2**	11
Weighted average share price (HK$ per share)	**2.11**	0.52

The expected life of the options is based on the historical data 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.

No other feature of the options granted was incorporated into the measurement of fair value.

The 3,750,000 share options exercised during the year resulted in the issue of 3,750,000 ordinary shares of the Company and new share capital of HK$375,000 and share premium of 2,249,000 (before issue expenses), as further detailed in note 30 to the financial statements.

At the end of the reporting period, the Company had 54,224,910 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 54,224,910 additional ordinary shares of the Company and additional share capital of HK$5,422,000 and share premium of HK$55,309,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 58,224,910 share options outstanding under the Scheme, which represented approximately 9.13% of the Company's shares in issue as at that date.

32. 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 33 to 34 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2009		222,731	10,702	5,028	238,461
Total comprehensive income for the year		–	–	60,253	60,253
Cancellation of share options		–	(10,702)	10,702	–
Equity-settled share option expense		–	3,036	–	3,036
Issue of shares — open offer		26,450	–	–	26,450
Interim 2009 dividend declared		–	–	(7,468)	(7,468)
Proposed final 2009 dividend		–	–	(45,470)	(45,470)
At 31 December 2009		249,181	3,036	23,045	275,262
Total comprehensive income for the year		–	–	86,388	86,388
Final 2009 dividend declared and paid		–	–	(2,056)	(2,056)
Acquisition of a subsidiary	30	68,180	–	–	68,180
Acquisition of non-controlling interests	30	49,581	–	–	49,581
Equity-settled share option expense	31	–	15,161	–	15,161
Share options exercised	30	2,249	(674)	–	1,575
Issue of shares — top-up placing	30	219,750	–	–	219,750
Share issue expenses	30	(10,065)	–	–	(10,065)
Interim 2010 dividend declared	12	–	–	(8,962)	(8,962)
Proposed final 2010 dividend		–	–	(57,409)	(57,409)
At 31 December 2010		578,876	17,523	41,006	637,405

The share option reserve comprises 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.

33. BUSINESS COMBINATIONS

(a) Acquisition of Beijing Yufa

On 4 January 2010, the Group acquired a 50% interest in Beijing Yufa from two independent shareholders. Beijing Yufa is engaged in the manufacture and sale of hardwood furniture. The purchase consideration for the acquisition was in the form of ordinary shares of the Company issued in January 2010. Further details are given in note 18 to the financial statements.

The Group has elected to measure the non-controlling interest in Beijing Yufa at the non-controlling interest's proportionate share of Beijing Yufa's identifiable net assets.

The fair values of the identifiable assets and liabilities of Beijing Yufa as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	3,763
Intangible assets	4
Cash and bank balances	1,345
Trade receivables	11,787
Prepayments and other receivables	3,940
Inventories	11,042
Trade payables	(5,073)
Accruals and other payables	(1,300)
Total identifiable net assets at fair value	25,508
Non-controlling interest in Beijing Yufa	(12,754)
Goodwill on acquisition	62,244
Satisfied by issuance of shares (note 30(a))	74,998

None of the goodwill recognised is expected to be deductible for income tax purposes.

33. BUSINESS COMBINATION (Continued)

(a) Acquisition of Beijing Yufa (Continued)

An analysis of the cash flows in respect of the acquisition of a Beijing Yufa is as follows:

	HK$'000
Cash considerations	–
Cash and bank balances acquired	1,345
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,345

Since its acquisition, Beijing Yufa contributed HK$36,647,000 to the Group's turnover and HK$8,371,000 to the consolidated profit for the year ended 31 December 2010.

(b) Acquisition of Beauty City

On 17 May 2010, the Group acquired 100% interest in Beauty City from an independent investor. The purchase consideration for the acquisition was in the form of cash, with HK$1,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Beauty City as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	9,567
Prepaid land lease payments	29,960
Cash and bank balances	1,124
Accruals and other payables	(40,974)
Deferred tax liabilities	(860)
Total identifiable net liabilities at fair value	(1,183)
Goodwill on acquisition	2,183
Satisfied by cash	1,000

None of the goodwill recognised is expected to be deductible for income tax purposes.

33. BUSINESS COMBINATIONS (Continued)

(b) Acquisition of Beauty City (Continued)

An analysis of the cash flows in respect of the acquisition of Beauty City is as follows:

	HK$'000
Cash consideration	(1,000)
Cash and bank balances acquired	1,124
Net inflow of cash and cash equivalents included in cash flows from investing activities	124

Beauty City has not commenced business during the year. The acquisition of the subsidiary had no significant impact on the Group's consolidated turnover or profit after tax for the year.

34. 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 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**25,315**	19,527
In the second to fifth years, inclusive	**21,746**	6,344
After five years	**4,945**	1,628
	52,006	27,499

At the end of the reporting period, the Company did not have any significant operating lease arrangements.

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for:		
The construction of land and buildings	**150,000**	–
The purchase of property, plant and machinery	**50,000**	4,582
	200,000	4,582

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

36. 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	
	Notes	**2010**	2009
		HK$'000	HK$'000
Associates:			
Sales of products	(i)	**10,354**	6,780
Purchase of products	(i)	**66,336**	72,989
Interest income	(ii)	**2,117**	–
Director:			
Sales of solid wood furniture	(iii)	**–**	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) Interest income, derived from the loan to an associate, was at the rate of 7.5% per annum.

(iii) The sales to a director were made according to the published prices and conditions offered to the major customers of the Group.

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with an associate as at the end of the reporting period are included in note 19 to the financial statements.

(c) Compensation of key management personnel of the Group

	Group	
	2010	2009
	HK$'000	HK$'000
Short term employee benefits	**11,941**	12,048
Equity-settled share option benefits	**3,574**	518
Pension scheme contributions	**9**	12
Total compensation paid to key management personnel	**15,524**	12,578

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

37. 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**
2010				
Trade receivables	**–**	**54,569**	**–**	**54,569**
Available-for-sale investments	**–**	**–**	**7,456**	**7,456**
Financial assets included in prepayments, deposits and other receivables (note 24)	**–**	**140,079**	**–**	**140,079**
Cash and cash equivalents	**–**	**238,199**	**–**	**238,199**
	–	**432,847**	**7,456**	**440,303**

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group (Continued)

Financial assets (Continued)

	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 24)	–	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

Financial liabilities

	2010 Financial liabilities at amortised cost HK$'000	2009 Financial liabilities at amortised cost HK$'000
Trade payables	**101,928**	72,921
Financial liabilities included in other payables and accruals (note 27)	**64,920**	51,507
Interest-bearing bank loans	**95,191**	26,099
	262,039	150,527

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

Financial assets

	2010 Loan and receivables HK$'000	2009 Loan and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables (note 24)	**10,066**	10,161
Cash and cash equivalents	**262**	4,788
	10,328	14,949

Financial liabilities

	2010 Financial liabilities at amortised cost HK$'000	2009 Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals (note 27)	**200**	200

38. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Cash and cash equivalents	**238,199**	113,695	**238,199**	113,695
Trade receivables	**54,569**	29,950	**54,569**	29,950
Financial assets included in prepayments, deposits and other receivables	**140,079**	100,077	**140,079**	100,077
Available-for-sale investments	**7,456**	8,432	**7,456**	8,432
Derivative financial instruments	–	14,000	–	14,000
	440,303	266,154	**440,303**	266,154
Financial liabilities				
Trade payables	**101,928**	72,921	**101,928**	72,921
Financial liabilities included in other payables and accruals	**64,920**	51,507	**64,920**	51,507
Interest-bearing bank borrowings	**95,191**	26,099	**95,191**	26,099
	262,039	150,527	**262,039**	150,527

38. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Cash and cash equivalents	**262**	4,788	**262**	4,788
Financial assets included in prepayments, deposits and other receivables	**10,066**	10,161	**10,066**	10,161
	10,328	14,949	**10,328**	14,949

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities included in other payables and accruals	**200**	200	**200**	200

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and loans to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of listed equity investments and the derivative financial instruments are based on quoted prices (unadjusted) in active markets for identical assets.

39. 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$238,000 and HK$65,000 for the years ended 31 December 2010 and 2009 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 2.67% (2009: 3.27%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2009: 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.

(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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk (Continued)

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.
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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

(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. 76% of the Group's borrowings would mature in less than one year as at 31 December 2010 (2009: 6%) 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

		2010	
	Less than 1 year HK$'000	**Over 1 year HK$'000**	**Total HK$'000**
Interest-bearing bank loans	**72,288**	**22,903**	**95,191**
Trade payables	**101,928**	**–**	**101,928**
Other payables and accruals	**105,308**	**–**	**105,308**
	279,524	**22,903**	**302,427**

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk (Continued)

	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	72,921	–	72,921
Other payables and accruals	84,657	–	84,657
	159,076	24,601	183,677

(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 2010 and 31 December 2009.

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Capital management (Continued)

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

Group

	2010 HK$'000	2009 HK$'000
Interest-bearing bank loans	**95,191**	26,099
Trade payables	**101,928**	72,921
Other payables and accruals	**105,308**	84,657
Less: Cash and cash equivalents	**(238,199)**	(113,695)
Net debt	**64,228**	69,982
Equity attributable to owners of the parent	**1,078,168**	617,826
Capital and net debt	**1,142,396**	687,808
Gearing ratio	**6%**	10%

40. EVENTS AFTER THE REPORTING PERIOD

(i) On 20 December 2010, the subsidiaries of the Company entered into an agreement with Tianjin Nongken Company Limited ("Tianjin Nongken"), pursuant to which a joint venture Tianjin Royal Furniture Company Limited ("Tianjin Royal"), with a registered capital of RMB150,000,000 will be established in Tianjin. Hong Kong Royal, Signature and Tianjin Nongken will make a cash contribution of RMB60,000,000, RMB22,500,000 and RMB67,500,000, accounted for 40%, 15% and 45% of the equity interest respectively. Tianjin Royal was established on 2 March 2011.

(ii) On 3 January 2011 and 31 January 2011, the Company has granted share options to the grantees which, subject to their acceptance, entitle them to subscribe for a total of 1,000,000 and 3,000,000 ordinary shares of HK$0.10 each of the Company under the share option scheme adopted by the Company on 26 April 2002.

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2011.