FAVA INTERNATIONAL HOLDINGS LIMITED
名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code : 8108

ANNUAL REPORT 2009

* For identification purpose only

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This report, for which the directors (the "Director(s)") of FAVA International Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Ge
Mr. Zhao Guo Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

REGISTERED OFFICE

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Hamilton HM 11,
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AUDIT COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

REMUNERATION COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

COMPLIANCE OFFICER

Mr. Li Ge

AUTHORISED REPRESENTATIVES

Mr. Li Ge
Mr. Zhao Guo Wei

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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6 Front Street,
Hamilton HM 11,
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Chartered Accountants
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Central,
Hong Kong

GEM STOCK CODE

08108

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report the annual results of FAVA International Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2009.

BUSINESS AND FINANCIAL REVIEW

Although the Group was impacted by the financial crisis in 2009, it was yet managed to sustain relatively stable operations, with its management policy remaining generally stable for production, sales (direct and indirect retail sales) and design. At the same time, the Group was also actively conducting market research in order to make preparations for coping with market changes and developing a robust profit model.

The Group managed to identify some of its shortcomings from the financial crisis. They included, for example, our lack of preparations to encounter changes and the over-expansion during the early stage which had led to overcapacity of plants and a rise in the production costs; in addition, our speedy move into the direct retail sector with staff lacking a sound management foundation had caused a loss to the retail business which should had substantial room for generating a profit.

The Group recorded a turnover of approximately HK$297,460,000 for the year ended 31 December 2009 (2008: approximately HK$477,827,000), representing a year-on-year fall of 37.7%, while loss attributable to shareholders reached approximately HK$120,484,000, posting a loss from a net profit of HK$66,138,000 in 2008.

PROSPECTS

The global financial crisis has severely hit the furniture sector since the second half of 2008. Although the Chinese economy has begun to make a step forward in recovery up to the present after the central government introduced the RMB4 trillion economic stimulus policy, the desire for consumption in the household market will remain weak for some time.

The crisis in the financial market has, to a certain extent, changed people's consumption attitudes so that consumers have become more rational when making purchases and more demanding for product quality and style. This has relatively reduced our market share.

Looking ahead, the Group will moderately adjust its existing business lines based on the conditions of the Company and the market, and take prudent steps to strengthen its organization and control capabilities to gradually develop a robust profit model in return for the shareholders' support to the Group.

I would like to thank all shareholders and Board members for their unswerving support and confidence. I also express my sincere gratitude to our customers and business partners. I would also like to thank the industry on behalf of the Group in recognition of the dedications by all the outstanding employees to make a valuable contribution for the Group to enable the Group to weather the challenging economic climate and move towards a bright future.

Li Ge
Chairman and Chief Executive Officer

Hong Kong, 30 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

The global economy remained volatile and challenging in 2009. The global economic downturn has a far-reaching impact on the markets around the world. The furniture industry is still in difficulties, where the impact on the residential/household furniture retail business as well as on the Group's customers and the suppliers' business was considerable. The Group values the relationships with its partners and has made every effort to help customers, suppliers and business partners weather the hard times.

Given the tough business environment and the sales fall in developed business, the Group continued to consolidate its financial position on one hand and aggressively sought a "light asset" running strategy on the other hand by attempting to switch to trading as our focus to improve operational efficiency.

The gross profit margin of the Group fell against the same period last year. At the end of the year, the Group recorded a loss totalling approximately HK$120 million, largely attributable to the deteriorating business environment which led to a fall in sales volume; the reduced output which resulted in a fall in the capacity utilization rate of plants and a rise in unit costs; the provision of sales subsidies for franchisees which led to an increase in sales expenses and the downturn of the Group's revenue. In addition, the great loss recorded during the year was mainly attributable to the impairment made to the goodwill arising from the acquisition of Lang Fang Huari Furniture International Exhibition Center (Hall A), disposal of some damaged inventories at a discounted price and provisions provided for bad debts related to receivables and prepayments. In general, the problems regarding high operating costs and overcapacity of our plants are becoming serious.

Gross profit margin was under pressure, falling from 32.2% in 2008 to 15.2% this year as a result of the Group's need to lower sales prices to maintain its market share as well as the rising raw materials prices, wages and transportation costs.

Due to unsatisfactory expected sales in the developed business, the Group had stepped up the optimization of the Company's operations for the sake of the Group's long-term development objectives, while reducing its overall costs and operating expenses.

RETAIL BUSINESS

Due to the fall in orders from franchisees, the Group has introduced various discount offers and provided sales subsidies for franchisees since the second half of 2008 in order to boost sales and maintain market share. During the period under review, the Group has discontinued the expansion of the self-operated retail business due to the sluggish property market in the PRC but will continue to expand and strengthen its franchising business that has been operating successfully over years.

As at the end of 2009, direct and indirect retail businesses accounted for 12.2% and 87.6% of the Group's sales respectively. Indirect retail sales derived from franchisees (including Huari and Jixiangniao brands) amounted to approximately HK$260,729,000, down 35.4% from last year. Direct retail sales derived from self-owned direct sale shop business (all of which was derived from Huari brand) amounted to approximately HK$36,350,000, down 43.9% from 2008.

Although the current Chinese economy has begun to make a step forward in recovery, the desire for consumption in the household market will remain weak for some time. Consumers have become more rational and more demanding for product quality and style. This has relatively reduced our market share.

In addition, the Group has been committed to strengthen and develop indirect retail business of Huari brand and contracted out all the existing self-owned direct sale shops under Huari brand as well as the manufacturing and wholesales business related to Jixiangniao brand. Contractors assumed sole responsibilities for their profits or losses, subject to a monthly contracting fee of certain amount payable to the Group. Self-owned direct sale shops under Huari brand in Beijing have been contracted out from the fourth quarter of 2009 and the other self-owned direct sale shops under Huari brand and the manufacturing and wholesales business of Jixiangniao have also been contracted out from January 2010, reducing the Group's operating costs and risks to assure its profitability.

PROSPECTS

The once-in-a-century economic recession has impacted a number of our counterparts in the industry, leaving many factories shut down as a result. Recent signs suggest that the global economic downturn may tend to be slowing down, and the global economy has started to stabilize in 2010, but the industry environment remains challenging. In addition to our aggressive efforts to introduce new product portfolios that cater for the increasing emphasis of general consumers on product quality, the Group will carry out the optimization of the Company's operational structure as well.

In spite of such difficult operating environment, the Group will try to stop the occurrence of loss as soon as possible through the management structure reorganization and the disposal of less efficient assets.

FINANCIAL REVIEW

The Group generated approximately HK$297,460,000 in total revenue in 2009, representing a fall of 37.7% as compared with year 2008.

The turnover can be further analyzed as follows:

	2009		2008		
	HK$ million	*%*	*HK$ million*	*%*	*Change*
PRC indirect retail sales	**260.7**	**87.6%**	403.5	84%	(35.4%)
PRC direct retail sales	**36.4**	**12.2%**	64.9	14%	(43.9%)
Export sales	**0.4**	**0.2%**	9.4	2%	(95.7%)
Total	**297.5**	**100%**	477.8	100%	

PLACING AND SUBSCRIPTION OF NEW SHARES

The Company entered into a placing agreement dated 18 May 2009 with Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent"), whereby the Placing Agent on a best efforts basis, a maximum of 182,000,000 new shares to independent investors at a price of HK$0.102 per Placing Share.

The placing of 182,000,000 new shares to not less than six placees was completed on 27 May 2009 at a placing price of HK$0.102 per share. The Company received net proceeds from the placing of approximately HK$17,863,000 for the purpose of increasing the general working capital.

For further details, please refer to the Company's announcements dated 18 May 2009 and 27 May 2009.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 31 December 2009, cash and bank balances of the Group was approximately HK$23,531,000 (2008: HK$54,977,000), approximately 99% of the Group's cash was denominated in Renminbi and 1% of the Group's cash was denominated in Hong Kong Dollars. The exposure to exchange fluctuation was minimal.

The Group has no bank borrowings throughout the year under review.

As at 31 December 2009, total borrowing of the Group amounted to approximately HK$44,000 (2008: approximately HK$60,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had employed 5 staffs in Hong Kong and 1,388 staffs in PRC (as at 31 December 2008: 5 staffs in Hong Kong and 527 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the year 2009 amounted to approximately HK$31,261,000 (2008: approximately HK$38,610,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

In addition, for twelve months ended 31 December 2009, the Group did not continue to hire any workers through the labour service contracts signed by Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司) ("Langfang Hengyu") with Lang Fang Huari Furniture Joint Stock Co. Ltd (2008: 1,494 workers) The monthly labour service payment to be made by the Group is calculated on the basis of 6.5% over the value of the finished goods warehoused each month. For the twelve months ended 31 December 2009, no labour service payment has been made by Langfang Hengyu. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group (2008: approximately average HK$2,045,000 per month).

CHARGE ON GROUP'S ASSETS

Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets as at 31 December 2009 (2008: Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets).

GEARING RATIO

As at 31 December 2009, the Group's gearing ratio was approximately 0.01% representing a percentage of obligations under finance lease over shareholders' equity (2008: 0.01%), and the net current assets was approximately HK$150,446,000 (2008: approximately HK$179,903,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the exposure to exchange fluctuation was not material and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

The Group had no other contingent liabilities at 31 December 2009 (2008: nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 42, was appointed as an executive director of the Company on 31 August 2006. He obtained a diploma in financial accountancy and a diploma in law from Hebei University, after that, he obtained a master of science in engineering from Wuhan Industry University (currently known as Wuhan University of Technology). Past experience includes being the executive director and senior consultant of Lang Fang Huari Furniture Joint Stock Co. Limited ("Huari Furniture"). Mr. Li has experience in the management of PRC listed company and Hong Kong listed company, and in the management of production and sales of household products in China. Mr. Li became a member of Chinese Institute of Certified Public Accountants in 1994, and is now a senior consultant of Beijing China Regal United Certified Public Accountants. Mr. Li has joined our Group since March 2006, he now holds directorship in Alwin Asia Investment Limited and Tedwood International Limited which are a directly wholly-owned subsidiary and an indirectly wholly-owned subsidiary of the Company respectively.

Mr. Zhao Guo Wei, aged 47, was appointed as an executive director of the Company on 6 July 2006. He obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School, and has over twenty-three years of experience in management of household products manufacturing including production flow path control and production cost control. Past experience includes being the General Manager of Quality Control Department of Huari Furniture. Mr. Zhao is now the Vice General Manager of Lang Fang Tian Feng Home Co. Limited. Lang Fang Tian Feng Home Co. Limited is an indirectly wholly-owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong, aged 49, was appointed as an independent non-executive director of the Company on 12 June 2006. He graduated at University of Sunderland, England, he is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee is now a director of Lynks CPA Limited, he has over twenty-three years of experience in accountancy and financial management. Mr. Lee is also a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Dongli, aged 37, was appointed as an independent non-executive director of the Company on 1 September 2005. He is formerly a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Limited. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over thirteen years working experience. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Jie, aged 28, was appointed as an independent non-executive director of the Company on 30 June 2006. He is now an engineer of Technical Service Support Department of Epson (China) Co., Limited. Mr. Yang graduated from Beijing Petrochemistry Institute majoring in Process Equipment and Control Engineering. He has over five years of working experience. In addition, Mr. Yang has taken the training course on Human Resources Management and Listed Company Regulations held by Ren Ming University, and has also taken the training course on Business Administration held by Qing Hua University. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, aged 32, is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, he has worked in certified public accountants firms and participated in various audit and accounting works. He has over nine years experiences in professional accounting practices.

The Directors have pleasure in presenting their report and the audited financial statements of FAVA International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at the balance sheet date are set out in the financial statements on pages 21 to 23.

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2009 (2008: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 80. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 31 and 32 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2009. Save as the placing of shares mentioned in the paragraphs headed "Placing of New Shares". The Company or any of its subsidiaries has not purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company has no reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981 and the Company's bye-laws.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 19.45% of the total sales for the year and sales to the largest customer included therein amounted to 11.84%. Purchases from the Group's five largest suppliers accounted for 13.66% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.65%.

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 or suppliers.

DONATION

No donation was made by the Group during the year (2008: Nil).

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 3 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Li Ge
Mr. Zhao Guo Wei

Independent non-executive Directors:

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

In accordance with bye-laws 86(2) and 87(1) of the Company's bye-laws, Messrs. Li Ge, Zhao Guo Wei, Lee Yuen Kwong, Yang Dongli and Yang Jie will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Yang Dongli, and Mr. Yang Jie, and as at the date of this report still considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the company secretary of the Company are set out on page 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive Directors, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, are appointed for an initial term of one year renewable by mutual agreement in writing two months in advance to the expiry of the initial term of appointment for successive terms of one year.

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 Company's board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

Details of the Directors' remunerations are set out in note 11 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

As at 31 December 2009, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 6 May 2002.

As at 31 December 2009, there are no outstanding options was granted under the Share Option Scheme.

On 22 January 2010 (the "Date of Grant"), pursuant to the Share Option Scheme, the Company has granted 110,400,000 share options to certain Eligible Persons (as defined in the Share Option Scheme) (the "Offerees"), representing approximately 7.972% of the issued share capital of the Company as at 22 January 2010. The share options shall entitle the Offerees to subscribe for a total of 110,400,000 ordinary shares of HK$0.002 each in the capital of the Company upon exercise in full the exercise price of share options granted is HK$0.1374, and the validity period will be two years which commenced from the Date of Grant to 21 January 2012. Such grants of share options have been accepted by the Offerees.

Details of the granting of the share option are set out in the announcement of the Company dated 22 January 2010.

Up to the date of this report, except for the above-mentioned share options that have been granted, there are no options was granted under the Share Option Scheme, and no share options been granted have been exercised.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below and the share option scheme as disclosed above, 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 or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

DISCLOSURE AND OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK$0.002 each of the Company

	Number of shares held, capacity and nature of interest					
Name of director	Directly beneficially owned	Through Spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total	Approximate percentage of the Company's total issued share capital
Mr. Li Ge	37,012,000	–	351,518,000	–	388,530,000	28.06%

Save as disclosed above, as at 31 December 2009, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

So far as were known to the Directors or chief executive of the Company, as at 31 December 2009, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of HK$0.002 each of the Company

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Approximate Percentage of the Company's issued share capital *(Note 1)*
True Allied Assets Limited		Beneficial owner	351,518,000	25.38%
Mr. Li Ge	2	Interest of controlled corporation	351,518,000	25.38%
		Beneficial owner	37,012,000	2.68%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,384,799,970 issued shares as at 31 December 2009.

(2) Mr. Li Ge is interested by virtue of his 100% beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at 31 December 2009, the Board is not aware of any other persons, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has any interest in any business which competed or might compete with the business of the Group.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Since the functional currencies of the Group's operations are HK Dollars and RMB, the Board considers that the exchange rate risk of the Group is minimal.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rule 5.34 of the GEM Listing Rules during the year under review.

SUBSEQUENT EVENT

Details of the significant subsequent event of the Group are set out in note 38 to the financial statements.

AUDIT COMMITTEE

The Company has established an Audit Committee on 7 July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the directors attending the Board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by Hong Kong Institute of Certified Public Accountants in February 2002, were adopted as written terms of reference for the Audit Committee of the Company. As at 31 December 2009, the audit committee comprised three members, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for several times during the year. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2009 and provided advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosures had been made.

AUDITORS

Messrs. HLB Hodgson Impey Cheng and Messrs. Cheung & Siu, Certified Public Accountants ("CS") were appointed as joint auditors of the Company on 21 March 2005.

Except CS which resigned as joint auditors of the Company on 20 November 2006, there have been no other changes of auditors in the past three years.

Messrs. HLB Hodgson Impey Cheng retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Li Ge
Executive Director

Hong Kong
30 March 2010

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"). During the year, save as disclosed in the paragraphs headed "Chairman and the Chief Executive Officer" (Code Provision A.2.1) below, the Company complied with and did not deviate from the code provisions as set out in the CG Code.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2009, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors (one is the chairman and chief executive officer of the Company), and three are independent non-executive Directors. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members during the year ended 31 December 2009 were:

Executive Directors

Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei

Independent non-executive Directors

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

The independent non-executive Directors should be responsible for making independent decisions in relation to the matters such as strategy, performance, conflict of interest and management process of the Group, in order to ensure the interest of the shareholders as a whole has been considered properly. Furthermore, in accordance with the requirement of the GEM Listing Rules, the audit committee was chaired by an independent non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by the Section 5.09 of the GEM Listing Rules.

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who attend Board meetings.

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

The Board held 13 meetings in 2009. Details of the attendance of the Board are as follows:

Name of Directors	Meetings attended/held	Attendance rate
Executive Directors		
Mr. Li Ge *(chairman and chief executive officer)*	13/13	100%
Mr. Zhao Guo Wei	13/13	100%
Independent non-executive Directors		
Mr. Lee Yuen Kwong	13/13	100%
Mr. Yang Dongli	13/13	100%
Mr. Yang Jie	13/13	100%

The following matters were discussed in the board meetings held in 2009:

(1) to approve the amendments to bye-laws;

(2) to consider and approve share placing and relevant issues;

(3) to approve the additional capital injections in subsidiaries;

(4) to approve the transfer of investment between subsidiaries;

(5) to approve the refreshment of the general mandates;

(6) to approve the conversion of the business integrated account of the holding company held with HSBC;

(7) to approve waiver of current accounts between holding company and subsidiaries;

(8) to approve the second supplemental agreement in relation to the acquisition of Huari trademarks;

(9) to consider and approve the quarterly, interim and annual results of the Group.

All directors were given at least 14 days notice for a regular board meeting, for all other board meetings, the directors were given reasonable notice. Agenda and relevant documents of the meeting was given to all the Directors before the date of the board meeting; the initial draft of the minutes of the board meeting was sent to the Directors for reviewing and providing comments; and the final draft of the minutes will be sent to the Directors for signature and records.

Directors can access to the company secretary or the intermediary for advices with a view to ensuring that board procedures and all applicable rules and regulations are followed. The minutes of board meeting were kept by the company secretary, and such minutes were opened for inspection at any reasonable time on reasonable notice by any Director.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (CODE PROVISION A.2.1)

Mr. Li Ge ("Mr. Li") assumes the roles of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

– the Board acts in the best interests of the Group; and

– the Board functions effectively, and that all key and appropriate issues are properly briefed to and discussed by the Board.

The Group deviates from Code Provision A.2.1 in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 15 to the GEM Listing Rules. The roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

– the three independent non-executive Directors form the majority of the five-member Board;

– the Audit Committee is composed exclusively of independent non-executive Directors; and

– the independent non-executive Directors could have free and direct access to the Company's external auditors and independent professional advice whenever necessary.

Mr. Li has considerable experience in the industry. He is dedicated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman, so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and their progress, for the purpose of facilitating open dialogue between the Board and the management.

In order to comply with the CG Code, the Company is now seeking for proper candidate to serve as the chief executive officer of the Company.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Each of the independent non-executive Directors was appointed of an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial term appointment for successive terms of one year. Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong (Chairman), Mr. Yang Dongli and Mr. Yang Jie.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

– to determine the remuneration packages of all executive Directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of executive remuneration package include basic salary, discretionary bonus and share option. The emoluments of executive Directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive Directors. The remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held.

During the year, the remuneration committee has not held any meeting to review the existing remuneration packages of the existing executive directors and senior management of the Company.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. The Board is empowered under the Company's bye-laws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year ended 31 December 2009, because there is no change in board membership, the Board has no meeting for the nomination of directors.

AUDITORS' REMUNERATION

An amount of approximately HK$500,000 (2008: HK$500,000) was charged to the Group's income statement for the year ended 31 December 2009 as auditors' fee.

The nature of audit and non-audit services provided by HLB Hodgson Impey Cheng ("HLB") and fees paid to HLB set out below:

	To HLB
	HK$' 000
Audit services	500
Tax	8
	508

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie. The chairman of the Audit Committee is Mr. Lee Yuen Kwong.

The Audit Committee held five meetings in 2009, which were attended by all three members. The Group's 2009 quarterly reports, 2009 half-yearly report, 2008 and 2009 annual results and 2008 and 2009 annual reports have been reviewed by the Audit Committee, which was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2009, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the Consolidated financial statements is set out in the auditors' report of the annual report of the Company for the year ended 31 December 2009.

COMMUNICATIONS WITH SHAREHOLDERS

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
FAVA INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 79 which comprise the consolidated and company statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 out audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the 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' judgment, 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the 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 2009 and of the Group's loss 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 30 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	7	297,460	477,827
Cost of sales		(252,309)	(323,895)
Gross profit		45,151	153,932
Other revenue	7	2,473	3,496
Other income	8	2,227	172
Impairment loss of goodwill	18	(61,576)	(11,868)
Selling and distribution costs		(45,896)	(43,521)
Administrative expenses		(33,755)	(28,691)
Other operating expenses	9	(29,104)	(7,378)
(Loss)/profit from operations	8	(120,480)	66,142
Finance costs	10	(4)	(4)
(Loss)/profit before taxation		(120,484)	66,138
Taxation	13	–	–
(Loss)/profit for the year		(120,484)	66,138
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		112	19,728
Total comprehensive (expense)/income for the year		(120,372)	85,866
(Loss)/profit attributable to owners of the Company		(120,484)	66,138
Total comprehensive (expense)/income attributable to owners of the Company		(120,372)	85,866
(Loss)/earnings per share	16		
– Basic and diluted (HK cents per share)		(9.18)	5.50

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**107,038**	121,720
Goodwill	*18*	**2,406**	64,006
Intangible assets	*19*	**10,219**	10,778
Long term prepayments	*20*	**15,060**	11,288
		134,723	207,792
Current assets			
Inventories	*22*	**141,150**	143,531
Trade receivables	*23*	**41,157**	38,826
Prepayments, deposits and other receivables	*24*	**85,360**	50,539
Cash and bank balances	*25*	**23,531**	54,977
		291,198	287,873
Less: Current liabilities			
Trade payables	*26*	**39,462**	20,354
Other payables and accruals	*27*	**62,648**	42,531
Receipts in advance	*28*	**37,976**	44,120
Amount due to a director	*29*	**650**	949
Obligations under finance lease – due within one year	*30*	**16**	16
		140,752	107,970
Net current assets		**150,446**	179,903
Total assets less current liabilities		**285,169**	387,695
Less: Non-current liability			
Obligations under finance lease – due after one year	*30*	**27**	44
Net assets		**285,142**	387,651
Capital and reserves			
Share capital	*31*	**2,769**	2,405
Reserves	*33(a)*	**282,373**	385,246
Total equity attributable to owners of the Company		**285,142**	387,651

Approved by the Board of Directors on 30 March 2010 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current asset			
Interests in subsidiaries	*21*	**–**	78
Current assets			
Amounts due from subsidiaries	*21*	**107,212**	108,988
Prepayments, deposits and other receivables	*24*	**231**	82
Cash and bank balances	*25*	**130**	156
		107,573	109,226
Less: Current liabilities			
Amount due to a subsidiary	*21*	**108**	5,403
Other payables and accruals	*27*	**718**	951
Amount due to a director	*29*	**450**	–
		1,276	6,354
Net current assets		**106,297**	102,872
Net assets		**106,297**	102,950
Capital and reserves			
Share capital	*31*	**2,769**	2,405
Reserves	*33(b)*	**103,528**	100,545
Total equity		**106,297**	102,950

Approved by the Board of Directors on 30 March 2010 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	(Accumulated losses)/ retained earnings HK$'000	Exchange reserve HK$'000	Statutory reserves HK$'000	Total equity HK$'000
At 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Profit for the year	–	–	–	66,138	–	–	66,138
Other comprehensive income for the year	–	–	–	–	19,728	–	19,728
Total comprehensive income for the year	–	–	–	66,138	19,728	–	85,866
Transfer to statutory reserves	–	–	–	(15,702)	–	15,702	–
At 31 December 2008 and 1 January 2009	2,405	151,778	36,000	119,539	36,448	41,481	387,651
Loss for the year	–	–	–	(120,484)	–	–	(120,484)
Other comprehensive income for the year	–	–	–	–	112	–	112
Total comprehensive (expense)/income for the year	–	–	–	(120,484)	112	–	(120,372)
Issue of shares	364	–	–	–	–	–	364
Premium arising from issue of new shares, net of expenses	–	17,499	–	–	–	–	17,499
At 31 December 2009	**2,769**	**169,277**	**36,000**	**(945)**	**36,560**	**41,481**	**285,142**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
(Loss)/profit before taxation		(120,484)	66,138
Adjustments for:			
Interest income	7	(19)	(25)
(Gain)/loss on disposal of property, plant and equipment	8	(10)	1,179
Depreciation	17	19,921	18,598
Amortisation of intangible assets	19	3,975	2,757
Amortisation of long term prepayments	20	7,522	3,715
Impairment loss of trade receivables	23	6,532	7,362
Impairment loss of prepayments and other receivables	24	5,597	16
Impairment loss of goodwill	18	61,576	11,868
Reversal of provision for claims	8	–	(172)
Reversal of impairment loss of trade receivables	23	(2,122)	–
Write down of obsolete inventories	22	12,800	–
Finance costs	10	4	4
Operating cash flow before working capital changes		(4,708)	111,440
Increase in inventories		(10,321)	(19,209)
Increase in trade receivables		(6,713)	(22,263)
(Increase)/decrease in prepayments, deposits and other receivables		(49,944)	21,100
Increase/(decrease) in trade payables		19,076	(250)
Increase in other payables and accruals		18,376	35,378
(Decrease)/increase in receipts in advance		(6,165)	23,210
(Decrease)/increase in amount due to a director		(299)	949
Cash (used in)/generated from operations		(40,698)	150,355
Interest element on finance lease rental payments		(4)	(4)
Net cash (outflow)/inflow from operating activities		(40,702)	150,351

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Interest received		19	25
Purchase of property, plant and equipment		(5,273)	(56,269)
Proceeds from disposal of property, plant and equipment		105	–
Additions of intangible assets		(3,409)	–
Acquisition of household product retail business		–	(27,923)
Payment of contingent consideration for acquisition of household furniture retail business in prior year		–	(72,096)
Net cash outflow from investing activities		(8,558)	(156,263)
Cash flows from financing activities			
Decrease in pledged bank deposits		–	2,799
Issue of shares		17,863	–
Capital element of finance lease rental payments		(17)	(17)
Net cash inflow from financing activities		17,846	2,782
Net decrease in cash and cash equivalents		(31,414)	(3,130)
Cash and cash equivalents at the beginning of the year		54,977	55,477
Effects of exchange rate changes on the balance of cash held in foreign currencies		(32)	2,630
Cash and cash equivalents at the end of the year		23,531	54,977
Analysis of balances of cash and cash equivalents			
Cash and bank balances		23,531	54,977

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

FAVA International Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. During the year, the principal activities of the Group are the manufacturing and sales of household products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued certain new and revised standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2009. The new and revised standards, amendments and interpretations adopted in the current year are referred to as new and revised HKFRSs. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to paragraph 80 of HKAS 39

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the "Statement of Comprehensive Income", the "Statement of Financial Position" and the "Statement of Cash Flows" respectively. All income and expenses arising from transaction with non-owners are presented under the "Statement of Comprehensive Income"; while the owners' changes in equity are presented in the "Statement of Changes in Equity". This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has changed the basis of measurement of the Group's segments (see Note 6). However, the adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments.

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

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Standards and interpretations in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 28 (Revised)	Investments in Associates[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

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

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid land lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification of the Group's leasehold land.

The directors of the Company anticipate that the application of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

A summary of significant accounting policies adopted by the Group in the preparation of the consolidated financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the consolidated financial statements is historical cost convention except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date such control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses within the Group are eliminated on consolidation.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the asset given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary in 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 statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated statement of comprehensive income.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets is provided on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date (which is regarded as their costs).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Impairment of non-financial assets (other than goodwill)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, inventories and financial assets), the asset's recoverable amount is estimated. As asset's recoverable amount is calculated as 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 statement of comprehensive income in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 statement of comprehensive income in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related party transactions

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

(a) the party, directly or indirectly through one or more intermediaries, (i) control, 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);

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

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

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchases price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost 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:

Plant and machinery	18%
Leasehold improvements	Over the lease terms
Motor vehicles	18%
Building	Over the lease terms
Furniture and fixtures	20%
Office and computer equipment	30%

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment 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 statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

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

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, rental payable under the operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than financial assets classified as at fair value through profit or loss, of which interest income is included in net gains and losses.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities with the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the probability of insolvency of significant financial difficulties of the debtors that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed if an increase in the fair value of investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss, of which interest expense is included in net gains and losses.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or 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.

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 pledged bank deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, 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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is 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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income tax

Income tax comprises the tax currently payable and deferred tax. Income tax is recognised in the statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period 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.

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 arise from goodwill or 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, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward 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 carry forward 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, associates and interests in joint ventures, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the 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. Conversely, previously unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at 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:

(a) 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;

(b) from the rendering of services, when services are provided; and

(c) 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.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income 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.

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. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These consolidated 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 are initially recorded using the functional currency rates ruling at the date 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 statement of comprehensive income. 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. 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 statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

Borrowing costs are recognised as expenses in the statement of comprehensive income in the period in which they are incurred.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions and expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(a) Income tax

The Group is subject to income taxes in Hong Kong and the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash-generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

(c) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the statement of comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (Note 18).

The carrying amount of goodwill as at 31 December 2009 was approximately HK$2,406,000 (2008: HK$64,006,000) after impairment loss of approximately HK$61,576,000 was recognised during the year ended 31 December 2009 (2008: HK$11,868,000). Details of the impairment loss are set out in Note 18.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

(e) Impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method (Note 19).

The carrying amount of intangible assets as at 31 December 2009 was approximately HK$10,219,000 (2008: HK$10,778,000).

(f) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significant as a result of change in market condition. Management reassess the estimations at the end of the reporting period.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	74,523	110,701
Financial liabilities		
Measured at amortised cost	102,803	63,894

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market risk exposures are measured by sensitivity analysis.

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk management

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group considers that there is no significant cash flow interest rate risk as the Group does not have any significant interest-bearing liabilities.

The Group's exposures to interest rates on financial liabilities are detailed in liquidity risk management section of this note.

Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's markets mainly located in the United States of America ("USA"), European Union and the PRC and its sales are denominated in United States dollars ("USD"), Euro dollars ("Euro") and Renminbi ("RMB") respectively whilst almost all of costs are denominated in the units' respective functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:–

	Liabilities		Assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**4,391**	4,389	**2**	2,016
Euro	**–**	–	**66**	312

Sensitivity analysis on foreign currency risk management

The Group is mainly exposed to the effects of fluctuation in USD and Euro.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number below indicates a decrease in profit where the Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balance below would be positive.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Sensitivity analysis on foreign currency risk management *(Continued)*

	2009 HK$'000	2008 HK$'000
Impact of USD		
Profit or loss *(Note (i))*	**219**	119
Impact of Euro		
Profit or loss *(Note (ii))*	**(3)**	(15)

Notes:

(i) This is mainly attributable to the exposure outstanding on receivables, cash and bank balances and receipts in advance denominated in USD not subject to cash flow hedge at year end.

(ii) This is mainly attributable to the exposure outstanding on cash and bank balances denominated in Euro not subject to cash flow hedge at year end.

The Group's sensitivity to foreign currency has increased during the current year mainly due to decrease in foreign currency denominated bank balances.

Credit risk

As at 31 December 2009 and 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has put in place policies to ensure that sales of products are made to recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are required to pay deposits which amounts are varied from customers to customers. In addition, receivable balances are monitored on an ongoing basis. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Company does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across geographical areas.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow is the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for both non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

	Weighted average effective interest rate %	Within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
2009					
Non-derivative financial liabilities					
Trade payables	–	39,462	–	39,462	39,462
Other payables and accruals	–	62,648	–	62,648	62,648
Amount due to a director	–	650	–	650	650
Obligations under finance lease	5	16	27	43	43
		102,776	27	102,803	102,803
2008					
Non-derivative financial liabilities					
Trade payables	–	20,354	–	20,354	20,354
Other payables and accruals	–	42,531	–	42,531	42,531
Amount due to a director	–	949	–	949	949
Obligations under finance lease	5	16	44	60	60
		63,850	44	63,894	63,894

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

(ii) The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

(iii) The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which only includes obligations under finance lease) and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(c) Capital risk management *(Continued)*

Gearing ratio

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. During the year ended 31 December 2009, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated based on total debt and owners' equity.

The gearing ratio as at the end of the reporting period is as follows:

	2009	2008
	HK$'000	HK$'000
Debt #	**43**	60
Owners' equity	**285,142**	387,651
Gearing ratio	**0.0151%**	0.0155%

Total debt comprises obligations under finance lease as detailed in Note 30.

6. SEGMENT INFORMATION

The Group adopted HKFRS 8 from 1 January 2009. Adoption of this standard did not have any effect on the Group's results of operations or financial position. With the adoption of HKFRS 8, the Group has re-assessed the operating segments compared to the business segments previously identified under HKAS 14, based upon the information reported internally to the Group's chief operating decision maker.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

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

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

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated items mainly comprise financial and corporate assets and liabilities, tax balances and corporate and financing expenses.

An analysis of the Group's revenue and results and certain assets, liabilities and expenditure information for the Group's reportable segments is as follows:

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment revenue:						
Sales to external customers	**36,350**	64,883	**261,110**	412,944	**297,460**	477,827
Segment results	**(141,002)**	5,464	**20,592**	66,336	**(120,410)**	71,800
Interest income and unallocated gains					**4,800**	3,668
Corporate and other unallocated expenses					**(4,870)**	(9,326)
Finance costs					**(4)**	(4)
(Loss)/profit before taxation					**(120,484)**	66,138
Taxation					**–**	–
(Loss)/profit for the year					**(120,484)**	66,138

There were no inter-segment sales in the year (2008: Nil). Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs and income tax expense. This is the measure reported to chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Assets and liabilities						
Segment assets	**6,351**	95,307	**418,898**	396,976	**425,249**	492,283
Corporate and other unallocated assets					**672**	3,382
Total assets					**425,921**	495,665
Segment liabilities	**69,360**	22,906	**69,914**	83,057	**139,274**	105,963
Corporate and other unallocated liabilities					**1,505**	2,051
Total liabilities					**140,779**	108,014

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

	Direct retail of household products		Indirect retail of household products and others		Unallocated		Total	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Other segment information								
Depreciation	2,057	1,664	17,814	16,884	50	50	19,921	18,598
Amortisation of intangible assets	–	–	3,975	2,757	–	–	3,975	2,757
Capital expenditure	502	3,250	4,771	53,019	–	–	5,273	56,269
Impairment loss of goodwill	61,576	11,868	–	–	–	–	61,576	11,868
Impairment loss of trade receivables	–	206	6,532	7,156	–	–	6,532	7,362
Impairment loss of prepayments and other receivables	–	16	5,597	–	–	–	5,597	16
Write down of obsolete inventories	–	–	12,800	–	–	–	12,800	–

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at the PRC, USA and European Union. The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed belows.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Sales						
The PRC	36,350	64,883	260,758	403,516	297,108	468,399
USA	–	–	245	2,982	245	2,982
European Union	–	–	87	5,148	87	5,148
Others	–	–	20	1,298	20	1,298
	36,350	64,883	261,110	412,944	297,460	477,827
Non-current assets						
The PRC	1,131	8,010	133,572	135,706	134,703	143,716

6. SEGMENT INFORMATION *(Continued)*

(c) Other information

Revenue from major products

The Group's revenue from its major products are as follows:

	2009 HK$'000	2008 HK$'000
Direct retail of household products	36,350	64,883
Indirect retail of household products and others	261,110	412,944
	297,460	477,827

Information about major customer

Includes in revenues arising manufacturing and sales of household products of approximately HK$297,460,000 (2008: HK$477,827,000) are revenues of approximately HK$35,211,000 (2008: HK$64,110,000) which arose from sales to the Group's largest customer (the indirect retail of household products and others segment.)

7. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of household products sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	The Group	
	2009 HK$'000	2008 HK$'000
Turnover:		
Indirect retail of household products and others	261,110	412,944
Direct retail of household products	36,350	64,883
	297,460	477,827
Other revenue:		
Bank interest income	19	25
Sundry income	2,454	2,911
Sales of raw materials	–	560
	2,473	3,496

8. (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations is arrived at after charging:

	The Group	
	2009	2008
	HK$'000	HK$'000
Cost of inventories sold	252,309	323,895
Auditors' remuneration	500	500
Depreciation on owned property, plant and equipment	19,896	18,573
Depreciation on property, plant and equipment held under finance lease	25	25
	19,921	18,598
Minimum lease payments under operating leases:		
Plant and machinery	4,176	2,088
Land and buildings	14,705	15,722
	18,881	17,810
Employee benefits expense (excluding directors' remuneration *(Note 11)*):		
Wages, salaries and other allowances	27,933	36,996
Pension scheme contributions	4,892	904
	32,825	37,900
Amortisation of intangible assets *(Note 19)*	3,975	2,757
Amortisation of long term prepayments *(Note 20)*	7,522	3,715
Impairment loss of goodwill *(Note 18)*	61,576	11,868
Impairment loss of trade receivables *(Note 23)*	6,532	7,362
Impairment loss of prepayments and other receivables *(Note 24)*	5,597	16
Write down of obsolete inventories *(Note 22)*	12,800	–
(Gain)/loss on disposals on property, plant and equipment	(10)	1,179
and after crediting:		
Other income:		
Reversal of provision for claims	–	172
Reversal of impairment loss of trade receivables *(Note 23)*	2,122	–
Others	105	–
	2,227	172

9. OTHER OPERATING EXPENSES

	The Group	
	2009	2008
	HK$'000	HK$'000
Impairment loss of trade receivables *(Note 23)*	**6,532**	7,362
Impairment loss of prepayments and other receivables *(Note 24)*	**5,597**	16
Loss on disposals of raw materials	**16,975**	–
	29,104	7,378

10. FINANCE COSTS

	The Group	
	2009	2008
	HK$'000	HK$'000
Interest on obligations under finance lease	**4**	4

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Fees	**866**	866
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Pension scheme contributions	**–**	–
	866	866

During the years ended 31 December 2009 and 2008, none of the directors were granted share options under the share option scheme operated by the Company.

11. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009 HK$'000	2008 HK$'000
Mr. Yang Dongli	**24**	24
Mr. Lee Yuen Kwong	**108**	108
Mr. Yang Jie	**24**	24
	156	156

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

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009				
Executive directors:				
Mr. Zhao Guo Wei	**60**	**–**	**–**	**60**
Mr. Li Ge	**650**	**–**	**–**	**650**
	710	**–**	**–**	**710**
2008				
Executive directors:				
Mr. Zhao Guo Wei	60	–	–	60
Mr. Li Ge	650	–	–	650
	710	–	–	710

There were no non-executive directors during the years ended 31 December 2009 and 2008.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2008.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: two) directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining three (2008: three) non-director, highest paid employees for the year are as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,072**	1,932
Pension scheme contributions	**34**	33
	1,106	1,965

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

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**3**	3

During the years ended 31 December 2009 and 2008, no share options were granted to non-director, highest paid employees in respect of their services to the Group.

No emoluments were paid by the Group to non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

13. TAXATION

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2008: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof (2008: Nil).

	The Group	
	2009	2008
	HK$'000	HK$'000
Current – Hong Kong	**–**	–
Current – PRC	**–**	–
Tax charge for the year	**–**	–

13. TAXATION *(Continued)*

A reconciliation between tax expense and accounting (loss)/profit at appreciate tax rates is set out below:

	2009 HK$'000	%	2008 HK$'000	%
(Loss)/profit before taxation	**(120,484)**		66,138	
National tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**(30,984)**	**(25.7)**	18,313	27.7
Tax holiday for a subsidiary operating in the PRC	**–**	**–**	(23,921)	(36.2)
Tax effect of expenses not deductible for tax purpose	**26,227**	**21.8**	3,941	6.0
Tax effect of income not taxable for tax purpose	**(19)**	**–**	(187)	(0.3)
Tax effect of unrecognised temporary difference	**5**	**–**	–	–
Tax loss not recognised	**4,771**	**3.9**	1,854	2.8
Tax effect for the year at the Group's effective rate	**–**	**–**	–	–

Deferred taxation

Deferred tax assets have not been recognised in respect of the following items:

	The Group		The Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Tax losses	**325**	325	**17**	17
Deductible temporary differences	**3**	3	**–**	–
	328	328	**17**	17

The above tax losses 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 the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company for the year ended 31 December 2009 included a loss of approximately HK$14,516,000 (2008: loss of HK$6,937,000) which has been dealt with in the consolidated financial statements of the Company (Note 33(b)).

15. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2009 (2008: Nil).

16. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

	2009	2008
(Loss)/earnings	**HK$'000**	HK$'000
(Loss)/profit attributable to owners of the Company, used in the basic (loss)/earnings per share calculation	**(120,484)**	66,138
Number of shares	**'000**	'000
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**1,312,000**	1,202,800

There was no diluting event existed during the years ended 31 December 2009 and 2008.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Building HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:							
At 1 January 2008	83,662	3,226	179	–	5	1,279	88,351
Additions	2,291	2,389	112	50,493	–	984	56,269
Acquisition of business	239	2,779	144	–	–	114	3,276
Disposals	–	(1,395)	–	–	–	(3)	(1,398)
Exchange realignment	5,275	243	14	649	–	82	6,263
At 31 December 2008 and 1 January 2009	91,467	7,242	449	51,142	5	2,456	152,761
Additions	1,087	497	–	–	–	3,689	5,273
Disposals	(1)	–	(114)	–	–	(4)	(119)
Exchange realignment	57	5	1	31	–	5	99
At 31 December 2009	92,610	7,744	336	51,173	5	6,146	158,014
Accumulated depreciation:							
At 1 January 2008	10,146	1,242	3	–	3	317	11,711
Charge for the year	14,478	3,295	57	262	2	504	18,598
Disposals	–	(217)	–	–	–	(2)	(219)
Exchange realignment	820	114	1	3	–	13	951
At 31 December 2008 and 1 January 2009	25,444	4,434	61	265	5	832	31,041
Charge for the year	14,905	2,434	67	1,063	–	1,452	19,921
Disposals	–	–	(22)	–	–	(2)	(24)
Exchange realignment	30	5	–	2	–	1	38
At 31 December 2009	40,379	6,873	106	1,330	5	2,283	50,976
Net book value:							
At 31 December 2009	**52,231**	**871**	**230**	**49,843**	**–**	**3,863**	**107,038**
At 31 December 2008	66,023	2,808	388	50,877	–	1,624	121,720

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2009 was approximately HK$25,000 (2008: HK$50,000).

18. GOODWILL

The Group	HK$'000
Cost:	
At 1 January 2008	75,108
Adjustments to measurement for acquisition in prior year (*Note (i)*)	(3,157)
Addition due to acquisition of business	3,729
Exchange realignment	194
At 31 December 2008 and 1 January 2009	75,874
Exchange realignment	46
At 31 December 2009	75,920
Impairment:	
At 1 January 2008	–
Impairment loss recognised	11,868
At 31 December 2008 and 1 January 2009	11,868
Impairment loss recognised	61,576
Exchange realignment	70
At 31 December 2009	73,514
Carrying amount:	
At 31 December 2009	**2,406**
At 31 December 2008	64,006

Note:

(i) An adjustment of approximately HK$3,157,000 was made to the consideration of the acquisition of furniture retail business during the year ended 31 December 2007.

For the purpose of impairment testing, goodwill has been allocated to individual cash-generating units determined based on related segment. The carrying amount of goodwill (net of impairment losses) as at 31 December 2009 and 2008 is all allocated to the segment in direct retail business of household products.

As at 31 December 2009 and 2008, with regard to the current market situation in the retail business of household products, the directors reviewed the carrying amount of goodwill arising from the acquisition of household products retail business. The recoverable amount of household products retail business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budget covering five years approved by senior management. The discount rate applied to the cash flow projections is 12% (2008: 12%) per annum.

18. GOODWILL *(Continued)*

The main factor contributing to the impairment of household products retail business cash-generating unit was the failure of the household products retail business to contribute to sales to the extent that had predicted.

Key assumptions were used in the value in use calculation of the household products retail business cash-generating unit for the years ended 31 December 2009 and 2008. 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 units.

19. INTANGIBLE ASSETS

The Group

	Trademarks
	HK$'000
Cost:	
At 1 January 2008	10,076
Acquired on acquisition of business	4,836
Exchange realignment	933
At 31 December 2008 and 1 January 2009	15,845
Additions	3,409
Exchange realignment	13
At 31 December 2009	19,267
Amortisation:	
At 1 January 2008	2,140
Amortise for the year	2,757
Exchange realignment	170
At 31 December 2008 and 1 January 2009	5,067
Amortise for the year	3,975
Exchange realignment	6
At 31 December 2009	9,048
Carrying amount:	
At 31 December 2009	**10,219**
At 31 December 2008	10,778

The above intangible assets have definite useful lives and are amortised on a straight line basis over 5 – 10 years.

20. LONG TERM PREPAYMENTS

The Group

The long term prepayments represent the rental prepayments of production plant and exhibition halls to Lang Fang Huari Furniture Joint Stock Co., Ltd. for 5 years from 2007.

	HK$'000
Cost:	
At 1 January 2008	21,247
Exchange realignment	1,329
At 31 December 2008 and 1 January 2009	22,576
Additions	15,060
Exchange realignment	10
At 31 December 2009	37,646
Amortisation:	
At 1 January 2008	3,541
Amortise for the year	3,715
Exchange realignment	269
At 31 December 2008 and 1 January 2009	7,525
Amortise for the year	7,522
Exchange realignment	9
At 31 December 2009	15,056
Carrying amount:	
At 31 December 2009	**22,590**
At 31 December 2008	15,051

	2009	2008
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables (*Note 24*))	**7,530**	3,763
Non-current assets	**15,060**	11,288
	22,590	15,051

21. INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**78**	78
Less: Impairment loss of investment costs *(Note (i))*	**(78)**	–
	–	78
Amounts due from subsidiaries	**127,520**	112,560
Less: Impairment loss of amounts due from subsidiaries	**(20,308)**	(3,572)
	107,212	108,988
Amount due to a subsidiary	**108**	5,403

Movement in impairment loss of amounts due from subsidiaries is as follows:

	The Company	
	2009	2008
	HK$'000	HK$'000
Balance at the beginning of the year	**3,572**	2,714
Impairment loss of amounts due from subsidiaries *(Note (iii))*	**16,736**	858
Balance at the end of the year	**20,308**	3,572

Notes:

(i) In view of the accumulated losses and net liabilities position of the Company's subsidiaries as at 31 December 2009, the directors of the Company considered that the investment cost would not be recoverable, and thus they concluded that it is appropriate to make provision for impairment loss of investment costs.

(ii) The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and recoverable on demand.

(iii) In view of the accumulated losses and net liabilities position of the Company's subsidiaries as at 31 December 2009, the directors of the Company considered that the carrying amounts of the amounts due from subsidiaries exceeds the recoverable amount, and thus, they concluded that it is appropriate to make provision for impairment loss in values in respect of the amounts due from subsidiaries.

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Alwin Asia Investment Limited	British Virgin Islands, limited liability company	US$10,000	100%	100%	Investment holding, Hong Kong
Tedwood International Limited	Hong Kong, limited liability company	HK$1	100%	100%	Inactive, Hong Kong
Lang Fang Tian Feng Home Co. Ltd	The PRC, wholly owned foreign enterprise	US$1,850,000	100%	100%	Inactive, the PRC
Trader Group International Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Langfang Huari Hengyu Home Co. Ltd.#	The PRC, wholly owned foreign enterprise	US$13,700,000	100%	100%	Manufacture and sales of household products, the PRC

The subsidiary was incorporated on 25 December 2006. Upon incorporation, the registered capital amounted to US$100,000. On 16 January 2007, the registered capital was increased to US$12,600,000. Capital injection of registered capital of US$100,000 and US$12,000,000 were injected by the Group on 7 January 2007 and 14 February 2007 respectively. The remaining amount of the registered capital of US$500,000 was injected by the Group on 2 June 2009.

During the year ended 31 December 2009, the registered capital was increased from US$12,600,000 to US$13,700,000. Capital injection of registered capital of US$1,100,000 was injected by the Group on 16 June 2009.

22. INVENTORIES

	The Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**100,244**	68,214
Work in progress	**25,318**	20,351
Finished goods	**28,388**	54,966
	153,950	143,531
Less: Write down of obsolete inventories	**(12,800)**	–
	141,150	143,531

Inventories of the Group were carried at net realisable value of approximately HK$41,867,000 (2008: Nil) at the end of the reporting period.

Movement in write down of obsolete inventories is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Balance at the beginning of the year	**–**	–
Write down of obsolete inventories	**12,800**	–
Balance at the end of the year	**12,800**	–

23. TRADE RECEIVABLES

The average credit period on sales of goods is 30 to 180 days. In view of 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.

	The Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	53,370	46,625
Less: Impairment loss of trade receivables	(12,213)	(7,799)
	41,157	38,826

As at 31 December 2009, the Group's trade receivables of approximately HK$12,213,000 (2008: HK$7,799,000) were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

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

	The Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	15,324	23,111
31 – 60 days	7,952	2,095
61 – 90 days	1,801	2,420
91 – 180 days	4,813	1,965
Over 180 days	11,267	9,235
	41,157	38,826

23. TRADE RECEIVABLES *(Continued)*

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately HK$25,634,000 (2008: HK$11,717,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

An ageing analysis of trade receivables which are past due but not impaired is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
31 – 60 days	**7,921**	664
61 – 90 days	**1,770**	369
91 – 180 days	**4,676**	1,452
Over 180 days	**11,267**	9,232
	25,634	11,717

Movement in impairment loss of trade receivables is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Balance at the beginning of the year	**7,799**	322
Reversal of impairment loss	**(2,122)**	–
Impairment loss of trade receivables	**6,532**	7,362
Exchange realignment	**4**	115
Balance at the end of the year	**12,213**	7,799

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors considered impairment loss is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the allowance for doubtful debts.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments	81,122	41,187	231	82
Deposits and other receivables	9,852	9,369	–	–
	90,974	50,556	231	82
Less: Impairment loss of prepayments and other receivables	(5,614)	(17)	–	–
	85,360	50,539	231	82

Movement in impairment loss of prepayments and other receivables is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Balance at the beginning of the year	17	1
Impairment loss of prepayments and other receivables	5,597	16
Balance at the end of the year	5,614	17

Included in the amount of prepayments, approximately HK$64,283,000 is prepayment for purchase of raw materials.

25. CASH AND BANK BALANCES

	The Group		The Company	
	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	23,531	54,977	130	156

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$23,177,000 (2008: HK$54,739,000). 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.

26. TRADE PAYABLES

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

	The Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**11,381**	6,126
31 – 60 days	**10,762**	2,641
61 – 90 days	**2,674**	2,362
91 – 180 days	**5,527**	4,280
Over 180 days	**9,118**	4,945
	39,462	20,354

27. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**11,855**	12,260	**–**	–
Value-added tax payables	**42,084**	26,873	**–**	–
Accruals	**8,709**	3,398	**718**	951
	62,648	42,531	**718**	951

28. RECEIPTS IN ADVANCE

	The Group	
	2009	2008
	HK$'000	HK$'000
Receipts in advance	**37,976**	44,120

The amounts are sales deposits received from customers and are expected to be settled or recognised as income within one year.

29. AMOUNT DUE TO A DIRECTOR

The Group and the Company

The amount due to a director is unsecured, interest-free and repayable on demand.

30. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2009 and 2008, the total future minimum lease payments under finance lease and their present values are as follows:

The Group

	Minimum lease payments 2009 HK$'000	Minimum lease payments 2008 HK$'000	**Present value of minimum lease payments 2009 HK$'000**	Present value of minimum lease payments 2008 HK$'000
Amount payable:				
Within one year	**21**	21	**16**	16
In the second to fifth years, inclusive	**33**	54	**27**	44
Total minimum finance lease payments	**54**	75	**43**	60
Future finance charges	**(11)**	(15)		
Total net finance lease payables	**43**	60		
Portion classified as current liabilities	**(16)**	(16)		
Non-current liabilities	**27**	44		

It is the Group's policy to lease certain of its property, plant and equipment under finance lease. The interest rate on finance lease was approximately 5% per annum and the term entered into was five years. Interest rate is fixed at the contract rate. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

31. SHARE CAPITAL

The Company

Ordinary shares

	Par value HK$	Number of shares '000	Share capital HK$'000
Authorised:			
At 1 January 2008, 31 December 2008 and 31 December 2009	**0.002**	**250,000,000**	**500,000**
Issued and fully paid:			
At 1 January 2008, 31 December 2008 and 1 January 2009	0.002	1,202,800	2,405
Placing of shares *(Note (i))*	0.002	182,000	364
At 31 December 2009		**1,384,800**	**2,769**

Note:

(i) On 27 May 2009, the placing agent, on behalf of the Company placed 182,000,000 shares of HK$0.002 each at a placing price of HK$0.102 each to not less than six investors. The Company received net proceeds from the subscription of approximately HK$17,863,000.

Share options

Details of the Company's share option scheme are included in Note 32 to the consolidated financial statements.

32. SHARE OPTION SCHEME

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

At the date of approval of these consolidated financial statements, there was no outstanding share options issued by the Company under the Share Option Scheme.

33. RESERVES

(a) The 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 page 24 of the consolidated financial statements.

The Group's contributed surplus as at 31 December 2009 and 2008 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

Apart from the above, subsidiaries are also required to appropriate its annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilised for employees' common welfare in accordance with the PRC Company Law. The directors recommended that 5% of statutory net profit for the entity should be appropriated to this reserve.

No appropriation is made to statutory welfare fund and statutory reserve fund during the year ended 31 December 2009 since the PRC subsidiaries do not record any profit for the year.

Movements in the statutory reserves are as follows:

	Statutory welfare fund HK$'000	**Statutory reserve fund** HK$'000	**Total** HK$'000
At 1 January 2008	8,592	17,187	25,779
Appropriations for the year	5,234	10,468	15,702
At 31 December 2008 and 1 January 2009	13,826	27,655	41,481
Appropriations for the year	–	–	–
At 31 December 2009	13,826	27,655	41,481

33. RESERVES *(Continued)*

(b) The Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008		151,778	36,000	(80,296)	107,482
Loss for the year		–	–	(6,937)	(6,937)
At 31 December 2008 and 1 January 2009		151,778	36,000	(87,233)	100,545
Premium arising from issue of new shares	*31 Note (i)*	18,200	–	–	18,200
Shares issue expenses	*31 Note (i)*	(701)	–	–	(701)
Loss for the year		–	–	(14,516)	(14,516)
At 31 December 2009		**169,277**	**36,000**	**(101,749)**	**103,528**

The Company's contributed surplus as at 31 December 2009 and 2008 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

34. ACQUISITION OF BUSINESS

For the year ended 31 December 2008:

(a) On 1 January 2008, a wholly owned subsidiary of the Group, Langfang Huari Hengyu Home Co., Limited ("Langfang Hengyu"), acquired the furniture manufacture and wholesale business from Jixiangniao Furniture Factory (Jixiangniao Business). The assets acquired includes (i) the trademark of "Jixiangniao 吉翔鳥"; (ii) the business of manufacturing and wholesaling of sofa, tea tables, and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory (including but not limited to all the contracts, agreements or undertakings in relation to the aforesaid business and assets signed with any independent third parties and all the rights and benefits derived from them) but excluding any debts and liabilities; and (iii) the inventory level as at 31 December 2007.

The total consideration is calculated based on the audited net profit of Jixiangniao Business for the year ended 31 December 2009 multiplied by a price-to-earnings ratio. The price-to-earnings ratio is determined by the amount of the audited net profit of Jixiangniao Business for the year ended 31 December 2008. Since the audited net profit of Jixiangniao Business for the year ended 31 December 2008 was less than RMB6,000,000, the total consideration would be the value of the assets acquired as aforementioned. The value of assets acquired was approximately HK$10,637,000 and was satisfied in cash. For details, please refer to the Company's announcement dated 12 November 2007.

34. ACQUISITION OF BUSINESS *(Continued)*

The effect of net assets acquired in the transaction are as follows:

Net assets acquired – First Completion:

	Acquiree's carrying amount before combination	Fair value adjustment	Total
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	328	–	328
Inventories	5,473	–	5,473
			5,801
Goodwill			–
			5,801

Net assets acquired – Second Completion:

	Acquiree's carrying amount before combination	Fair value adjustment	Total
	HK$'000	HK$'000	HK$'000
Trademark	–	4,836	4,836
Goodwill			–
			4,836
Total consideration satisfied by:			
Cash			10,637

Analysis of the net cash outflow in respect of the acquisition of Jixangniao Business:

	HK$'000
Cash consideration paid	(10,637)

Notes:

(i) The carrying amount of assets before combination approximates to their fair values as at the date of acquisition.

(ii) During the year ended 31 December 2008, the Jixiangniao Business contributed approximately HK$4,392,000 to the Group's profit between the date of acquisition and year end date.

34. ACQUISITION OF BUSINESS *(Continued)*

(b) On 1 April 2008, Langfang Hengyu, acquired the furniture retail business and assets of 2 furniture retails shops in Dalian, 5 furniture retails shops in Chongqing, 2 furniture retails shops in Chengdu and 11 furniture retails shops in Shanghai (including but not limited to all the contracts, agreements or undertakings signed with any third parties and all the rights and benefits derived from them and inventory) from Mr. Xiu Xianliu.

The total consideration is calculated based on the audited net profit for the year ending 31 March 2009 multiplied by a price-to-earnings ratio. The price-to-earnings ratio is determined by the amount of the audited net profit for the year ending 31 March 2009. The directors estimated that the audited net profit for the year ending 31 March 2009 would be net loss and considered that the condition for contingent consideration would not be satisfied. Hence the total consideration would be RMB8,400,000 (approximately HK$9,429,000). For details, please refer to the Company's announcement dated 7 March 2008.

As at 31 December 2008, the amount of goodwill arising as a result of the acquisition was approximately HK$2,528,000.

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination	Fair value adjustment	Total
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	1,621	–	1,621
Inventories	5,280	–	5,280
			6,901
Goodwill			2,528
			9,429
Total consideration satisfied by:			
Cash			9,429

Analysis of the net cash outflow in respect of the acquisition of furniture retail business:

	HK$'000
Cash consideration paid	(9,429)

34. ACQUISITION OF BUSINESS *(Continued)*

Notes:

(i) The carrying amount of assets before combination approximates to their fair values as at the date of acquisition.

(ii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire furniture retail business. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(iii) The furniture retail business contributed loss of approximately HK$7,528,000 to the Group's profit between the date of acquisition and the year ended 31 December 2008,

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been approximately HK$480,700,000, and profit for the year would have been approximately HK$63,903,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

(c) On 1 April 2008, Langfang Hengyu, acquired the furniture retail business and assets of 9 furniture retails shops in Beijing (including but not limited to all the contracts, agreements or undertakings signed with any third parties and all the rights and benefits derived from them and inventory) from Mr. Zhou Xu En.

The total consideration is calculated based on the audited net profit for the year ending 31 March 2009 multiplied by a price-to-earnings ratio. The price-to-earnings ratio is determined by the amount of the audited net profit for the year ending 31 March 2009. The directors estimated that the audited net profit for the year ending 31 March 2009 would be net loss and considered the condition for contingent consideration would not be satisfied. Hence the total consideration would be RMB7,000,000 (approximately HK$7,857,000). For details, please refer to the Company's announcement dated 23 June 2008.

As at 31 December 2008, the amount of goodwill arising as a result of the acquisition was approximately HK$1,201,000.

34. ACQUISITION OF BUSINESS *(Continued)*

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Total HK$'000
Property, plant and equipment	1,327	–	1,327
Inventories	5,329	–	5,329
			6,656
Goodwill			1,201
			7,857
Total consideration satisfied by:			
Cash			7,857

Analysis of the net cash outflow in respect of the acquisition of furniture retail business:

	HK$'000
Cash consideration paid	(7,857)

Notes:

(i) The carrying amount of assets before combination approximates to their fair values as at the date of acquisition.

(ii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire furniture retail business. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(ii) The furniture retail business contributed loss of approximately HK$7,894,000 to the Group's profit between the date of acquisition and the year ended 31 December 2008.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been approximately HK$487,634,000, and profit for the year would have been approximately HK$64,253,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

35. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2009 (2008: Nil).

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain office properties, director's quarter under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Land and buildings		
Within one year	**695**	1,258
In the second to fifth years, inclusive	**100**	449
	795	1,707

The Company had no operating lease commitment as at 31 December 2009 (2008: Nil).

37. MATERIAL RELATED PARTY TRANSACTIONS

Save as those disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

(a) Compensation of key management personnel of the Group:

	2009	2008
	HK$'000	HK$'000
Short term employee benefits	**1,334**	1,334
MPF Contribution	**12**	12
Total compensation paid to key management personnel	**1,346**	1,346

Further details of directors' emoluments are included in Note 11 to the consolidated financial statements.

37. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b)

Name of related parties	Nature of transaction	*Note*	**2009 HK$'000**	2008 HK$'000
K. K. Lau & Co.	Legal fee	*(i)*	**–**	24

Note:

(i) The legal fee paid to K. K. Lau & Co. was charged at rates negotiated by reference to market rates. Mr. Lau Kwok Kee, who resigned as an independent non-executive director of the Company on 30 September 2004, is a partner of K. K. Lau & Co.

38. SUBSEQUENT EVENT

On 22 January 2010, the Company has granted 110,400,000 share options pursuant to the Company's Share Option Scheme (Note 32). The share options entitle the offerees to subscribe for a total of 110,400,000 ordinary shares of HK$0.002 each in the capital of the Company upon exercise in full the exercise price of share options granted is HK$0.1374, and the validity period will be two years which commenced from the date of grant to 21 January 2012. Such grants of share options have been accepted by the offerees.

39. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to confirm with current year's presentation. Amounts of approximately HK$7,294,000 have been reclassified from administrative expenses to other operating expenses for the year ended 31 December 2009.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2010.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
RESULTS					
Turnover	**297,460**	477,827	447,814	160,414	22,656
Cost of sales	**(252,309)**	(323,895)	(296,060)	(110,423)	(19,987)
Gross profit	**45,151**	153,932	151,754	49,991	2,669
Other revenue	**2,473**	3,496	935	1,003	3
Other income	**2,227**	172	433	513	–
Selling and distribution costs	**(45,896)**	(43,521)	(17,193)	(1,041)	–
Administrative expenses	**(33,755)**	(28,691)	(16,140)	(7,513)	(4,602)
Impairment loss recognised in respect of goodwill	**(61,576)**	(11,868)	–	–	–
Provision for amounts due from associates	–	–	–	–	(3)
Fair value changes on financial assets at fair value through profit or loss	–	–	(288)	–	–
Other operating expenses	**(29,104)**	(7,378)	(416)	(105)	(571)
Profit/(loss) from operations	**(120,480)**	66,142	119,082	42,848	(2,504)
Finance costs	**(4)**	(4)	(3)	(724)	(3)
Gain on disposal of subsidiaries	–	–	–	1,158	–
Fair value loss on derivative liability	–	–	–	(1,616)	–
Profit/(loss) before taxation	**(120,484)**	66,138	117,773	41,666	(2,507)
Taxation	–	–	(984)	–	–
Profit/(loss) for the year from continuing operations	**(120,484)**	66,138	118,098	41,666	(2,507)
Discontinued operations					
Profit/(loss) for the year from discontinued operations	–	–	–	5,852	(11,629)
Profit/(loss) for the year	**(120,484)**	66,138	118,098	47,518	(14,136)
Attributable to:					
Owners of the Company	**(120,484)**	66,138	118,098	47,518	(14,136)

	As at 31 December				
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES					
Total assets	**425,921**	495,665	432,731	99,256	5,470
Total liabilities	**(140,779)**	(108,014)	(130,946)	(36,086)	(11,746)