ANNUAL
REPORT
2010

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

(Incorporated in Bermuda with limited liability)
Stock Code : 08108

* For identification purpose only

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Contents

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Ge
Mr. Zhao Guo Wei
Mr. Ma Chun Fung, Horace

NON-EXECUTIVE DIRECTOR

Mr. Ng Kwai Wah, Sunny

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REGISTERED OFFICE

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Hamilton HM 11,
Bermuda

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Wanchai,
Hong Kong

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, *CPA, FCCA*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street,
Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

HONG KONG LEGAL ADVISER

Loong & Yeung Solicitors
Suites 2001-2005, 20/F,
Jardine House,
1 Connaught Place,
Central,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark,
11 Pedder Street,
Central,
Hong Kong

GEM STOCK CODE

08108

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

Dear Shareholders,

On behalf of the board (the "Board") of the directors of the Company, 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 2010.

BUSINESS AND FINANCIAL REVIEW

During 2010, the Group had not yet recovered from the impact of the financial crisis. The net loss for the year recorded approximately HK$29,598,000 representing a significant rebound from the net loss of approximately HK$120,484,000 over the corresponding period last year. The Group believes that the Group will to record profits in the near future.

The Group managed to identify some of its shortcomings in operation and management from the financial crisis. They included, for example, our slow response to encounter market changes and the over-expansion. An example of which was our speedy move into the direct retail sector without thorough preparation and caused a loss to the direct retail business which should have substantial room for generating a profit.

Therefore, during the year, the Group disposed of most of its underperforming businesses including loss-making direct retail shops and Jixiangniao Business as well as non-operating subsidiaries whilst only the manufacturing business, a small part of the direct retail business and the design business remained in operation. With the remaining operations as its core business, the Group will be able to adjust in line with market changes and generate robust profit once domestic furniture market starts to pick up.

The Group recorded a turnover of approximately HK$200,287,000 for the year ended 31 December 2010 (2009: approximately HK$297,460,000), representing a year-on-year fall of 32.67%, while loss attributable to shareholders was approximately HK$29,598,000, significantly dropped 75.43% from approximately HK$120,484,000 in 2009.

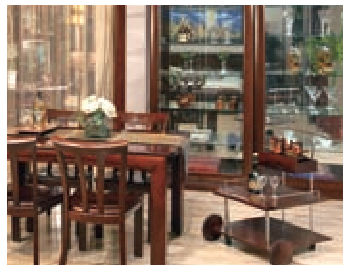
PROSPECTS

We expect the overall economic condition and the furniture industry will remain challenging in the coming year. Despite the uncertainties in the economic environment, we will adhere to our philosophy of "serve customers with our best" through the provision of all-in-one services ranging from design, household renovation, building materials, soft wood furniture to solid wood furniture to customers. The Group continuously improves its service quality and keeps raising its operating efficiency at the same time. We are confident in achieving satisfactory results in the coming year.

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 management and operation capabilities to gradually develop a robust profit model in return for the shareholders' support to the Group. In spite of hardship and challenges ahead, we are convinced that the Group will be able to maintain stable development and post profit results in 2011.

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, 24 March 2011



BUSINESS AND FINANCIAL REVIEW

Benefiting from the vigorous gross domestic production (GDP) growth, the furniture industry in China is fueled with significant upside momentum. However, a series of austerity measures introduced by the Central Government against inflation has slowed down annual GDP growth rate, and eventually weakened growth impetus of the furniture industry.

Against the backdrop of an obscure macro-economic environment with sluggish economic recovery, high unemployment rate and poor consumer sentiment, the Group prioritized market share expansion and operating effectiveness enhancement by optimizing production procedures and production efficiency so as to maintain competitive advantages in spite of the increasing raw material costs and labour costs. In addition, the Group has also boosted product development by launching new series of furniture such as TAWA apart from the existing product series such as Norwegian Forest, Greenwich, Modern Orient and California Sun.

Gross profit margin of the Group continuously fell due to fierce competition. Gross profit margin decreased from 15.18% in 2009 to 8.23% this year. The Group disposed of most of its direct retail business with higher gross profit margin whilst focused to develop its indirect retail business and this attributed to the decrease in gross profit margin. In addition, offering discounts to certain obsolete inventories resulted in a further drop in gross profit margin.

In 2010, the Group recorded a loss totaling approximately HK$29,598,000, largely attributable to the unfavorable business environment which led to the difficulty in improving the sales volume, the reduced output which resulted in a fall in the capacity utilization rate of plants, the rise in unit costs and the provision of sales subsidies to franchisees. In general, although the problems regarding high operating costs and overcapacity of our plants are still serious, it shows a significant improvement as compared to 2009.

Due to the unsatisfactory 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, in order to achieve an operating mode of "light assets".

RETAIL BUSINESS

Due to the fall in orders from franchisees, the Group has introduced various discount offers and provided sales subsidies to franchisees in order to boost sales and maintain market share. The Group's total retail sales, however, remained falling as a result of the general unfavorable business environment. The turnover totaled HK$200,287,000 only, representing a decrease of 32.67% from last year.

In 2010, indirect retail sales derived from franchisees amounted to approximately HK$181,338,000, down 30.55% from approximately HK$261,110,000 last year.

Direct retail sales derived from self-owned direct sale shop (Hall A) totaled approximately HK$18,949,000, down 47.87% from approximately HK$36,350,000 last year.

PROSPECTS

The measures implemented by the Chinese Government to regulate the real estate market, especially in first tier cities, have postponed home buyers from buying properties and furniture, which inevitably brought certain impacts to the furniture market. The Group currently targets at the real estate market in the second-and-third tier cities as well as rural areas where huge housing demand is in place due to the Central Government's supportive policies on rural-urban migration. As continuous growth is expected in the real estate market of those cities, the Group will be able to achieve its goal of business expansion should it capitalize on business opportunities and strengthen cooperation with franchisees.

The Group provides one-stop services featuring wood furniture, tailor-made household renovation and low carbon consumption to cater for consumers' unique requirements. The Group will continue to develop new product portfolios in response to the increasing emphasis of general consumers on product quality, insist on original design and offer comprehensive after-sale services so as to gain recognition from consumers.

MATERIAL DISPOSALS OF BUSINESS

Disposal of the Jixiangniao Furniture Factory* (吉祥鳥家具廠) owned by Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司) ("Hengyu") (the "Disposal")

On 19 May 2010, Hengyu entered into a disposal agreement with Mr. Liu Qian Jin (柳前進先生) ("Mr. Liu"), pursuant to which Hengyu agreed to dispose of and Mr. Liu agreed to acquire, the Jixiangniao Furniture Factory* (吉祥鳥家具廠), a factory engages in the business of manufacturing and wholesaling of sofa, tea tables and living room furniture, and the business of Jixiangniao Furniture Factory* (吉祥鳥家具廠) wholly owned by Hengyu. Mr. Liu was an independent third party in respect of the Disposal. The consideration for the Disposal was RMB3,400,366.97 (approximately HK$3,867,781.41). The gross proceeds of RMB3,400,366.97 (before deducting all expenses) from the Disposal has been applied for offsetting the amounts due to Mr. Liu and the remaining balance has been used as the Group's general working capital. For details, please refer to the announcement of the Company dated 19 May 2010.

Disposal of the Beijing Business by Hengyu

On 14 June 2010, Hengyu entered into a disposal agreement (the "Beijing Disposal Agreement") with Mr. Zhou Xu En ("Mr. Zhou"), pursuant to the Beijing Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhou agreed to acquire, the furniture retail outlet in Beijing and its business owned by Hengyu as at 31 May 2010 (the "Beijing Business") (the "Beijing Disposal"). Mr. Zhou was an independent third party save as the business relationship with Lang Fang Huari Furniture Joint Stock Co., Ltd.* (廊坊華日家具股份有限公司) in respect of the disposal of the Beijing Business. The consideration for the Beijing Disposal was RMB49,683.53 (approximately HK$56,515.02). The gross proceeds of RMB49,683.53 from the Beijing Disposal has been used as the Group's general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Disposal of the Shanghai Business by Hengyu

On 14 June 2010, Hengyu entered into a disposal agreement (the "Shanghai Disposal Agreement") with Mr. Zhang Ming Liang ("Mr. Zhang"), pursuant to the Shanghai Disposal Agreement, Hengyu agreed to dispose of and Mr. Zhang agreed to acquire, the furniture retail outlet in Shanghai and its business owned by Hengyu as at 31 May 2010 (the "Shanghai Business") (the "Shanghai Disposal"). Mr. Zhang was an independent third party in respect of the disposal of the Shanghai Business. The consideration for the Shanghai Disposal was RMB209,319.33 (approximately HK$238,100.74). The gross proceeds of RMB209,319.33 from the Shanghai Disposal has been used as the Group's general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Disposal of the Dalian Business by Hengyu

On 14 June 2010, Hengyu entered into a disposal agreement (the "Dalian Disposal Agreement") with Mr. Huang Bing Xiu ("Mr. Huang"), pursuant to the Dalian Disposal Agreement, Hengyu agreed to dispose of and Mr. Huang agreed to acquire, the furniture retail outlet in Dalian and its business owned by Hengyu as at 31 May 2010 (the "Dalian Business") (the "Dalian Disposal"). Mr. Huang was an independent third party in respect of the disposal of the Dalian Business. The consideration for the Dalian Disposal was RMB1 (approximately HK$1.1375). The gross proceeds of RMB1 from the Dalian Disposal has been used as the Group's general working capital. For details, please refer to the announcement of the Company dated 14 June 2010.

Transfer of Tianfeng Equity Interests (the "Share Transfer") by Trader Group International Limited ("Trader Group")

On 17 September 2010, Trader Group, a wholly-owned subsidiary of the Company, entered into a share transfer contract (the "Share Transfer Contract") with Lucky Sky Enterprise Limited ("Lucky Sky"), an independent third party in respect of the Share Transfer, pursuant to the Share Transfer

Contract, Trader Group agreed to dispose of and Lucky Sky agreed to acquire, the 100% equity interests of Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司) (Tian Feng). The consideration for the Share Transfer was RMB5,557,355.18 (approximately HK$6,346,999.78). The gross proceeds of RMB5,557,355.18 from the Share Transfer has been used as the Group's general working capital. For details, please refer to the announcement of the Company dated 17 September 2010.

Save as disclosed above, the Group did not have any other acquisition or disposal during the year.

FINANCIAL REVIEW

The Group generated approximately HK$200,287,000 in total revenue in 2010, representing a fall of 32.67% as compared with year 2009.

The turnover can be further analyzed as follows:

	2010		2009		
	HK$ million	%	HK$ million	%	Change
PRC indirect retail sales	**173.3**	**86.54%**	260.7	87.6%	(33.5%)
PRC direct retail sales	**18.9**	**9.46%**	36.4	12.2%	(48.1%)
Export sales	**8.1**	**4%**	0.4	0.2%	1,925%
Total	**200.3**	**100%**	297.5	100%	

MEMORANDUM OF UNDERSTANDING

On 20 September 2010, a wholly-owned subsidiary of the Company, EMAX Venture Limited (the "Purchaser"), entered into the Memorandum of Understanding ("MOU") with an individual who is the controlling shareholder of the target company under the proposed acquisition (the "Target Company") (the "Vendor"), pursuant to which the Purchaser intended to acquire and the Vendor intended to sell 80% interest of the Target Company (the "Proposed Acquisition"). The Target Company and its subsidiaries (the "Target Group") are principally engaged in the retail business of fashionable products and accessories in Hong Kong and the PRC.

The Consideration is expected to be in the range from HK$600,000,000 to HK$800,000,000.

Pursuant to the MOU, the Purchaser shall pay HK$40,000,000 to the Vendor within 30 days from the date of the MOU (or such other dates or times as agreed between the Vendor and the Purchaser) as earnest money or deposit ("Earnest Money") which is refundable (i) if a formal legally-binding sale and purchase agreement between the Purchaser (or its nominated entity) and the Vendor in the event that the parties proceeds with the Proposed Acquisition (the "Formal Agreement") and other legal documentation relating to the subject matter of the MOU is not entered into by the respective parties on or before 29 October 2010 (or such later date as the Vendor and the Purchaser may agree in writing); or (ii) upon receiving the notification from the Purchaser that the results of the due diligence exercise on the Target Group to be conducted are not satisfactory to the Purchaser in its sole discretion.

Upon signing of the Formal Agreement, the Earnest Money will be applied as deposit and part payment of the Consideration.

On 18 November 2010, the purchaser and the Vendor agreed that the Earnest Money is refundable (i) if the Formal Agreement and other legal documentation relating to the subject matter of the MOU is not entered into by the respective parties on or before 19 March 2011 ; or (ii) upon receiving the notification from Purchaser that the results of the due diligence exercise on Target Group to be conducted are not satisfactory to Purchaser in its sole discretion.

As no Formal Agreement and other legal documentation relating to the subject matter of the MOU has been entered into on or before the ending of the exclusivity period of the MOU (i.e. on or before 19 March 2011), thus the MOU shall lapse accordingly. The Earnest Money paid by the Purchaser to the Vendor will be refunded to the Purchaser in full.

For details, please refer to the announcements of the Company dated 21 September 2010, 18 November 2010 and 19 March 2011.

PLACING OF NEW SHARES

The Company entered into a placing agreement dated 21 September 2010 with Quam Securities Company Limited (the "Placing Agent"), whereby the Company conditionally agreed to place through the Placing Agent, on a best efforts basis, a maximum of 276,956,000 new shares (the "Placing Shares") to independent investors at a price of HK$0.116 per Placing Share (the "Placing").

The placing of 276,956,000 new shares to not less than six placees was completed on 8 October 2010 at a placing price of HK$0.116 per share. HK$30,000,000 of the net proceeds received by the Company from the Placing of approximately HK$31,800,000 has been applied for the partial settlement of the earnest money in the amount of HK$40,000,000 payable under the terms of the MOU. As at the date of this report, the earnest money has been fully settled.

For further details, please refer to the Company's announcements dated 21 September 2010 and 8 October 2010 respectively.

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31 December 2010.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There was 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 2010, cash and bank balances of the Group was approximately HK$25,527,000 (2009: approximately HK$23,531,000), approximately 93% of the Group's cash was denominated in Renminbi and 7% of the Group's cash was denominated in Hong Kong dollars. The Group's exposure to exchange fluctuation was minimal.

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

As at 31 December 2010, total borrowing of the Group amounted to approximately HK$26,000 (2009: approximately HK$43,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

CAPITAL STRUCTURE

The total number of issued shares of the Company was 1,744,555,970 as at 31 December 2010.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had employed 6 staffs in Hong Kong and 922 staffs in PRC (as at 31 December 2009: 5 staffs in Hong Kong and 1,388 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 2010 amounted to approximately HK$27,807,000 (2009: approximately HK$33,535,000).

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.

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 2010 (2009: 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 2010, the Group's gearing ratio was approximately 0.01% representing a percentage of obligations under finance lease over shareholders' equity (2009: 0.01%), and the net current assets was approximately HK$212,113,000 (2009: approximately HK$150,446,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the Group's 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 and the Company had no contingent liabilities as at 31 December 2010 (2009: nil).

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 43, was appointed as an executive Director 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, Tedwood International Limited, EMAX Venture Limited and General Asia Holdings Limited which are four companies are wholly-owned subsidiaries of the Company.

Mr. Zhao Guo Wei, aged 48, was appointed as an executive Director on 6 July 2006. He obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School, and has over twenty-four years of experience in management of household products manufacturing including production flow path control and production cost control. Mr. Zhao's past experience includes his appointment as the General Manager of Quality Control Department of Huari Furniture.

Mr. Ma Chun Fung, Horace, aged 40, was appointed as an executive Director on 21 September 2010. He holds a Master of Science Degree and a Bachelor of Business Administration Degree from The Chinese University of Hong Kong, and a Bachelor of Laws Degree from the University of London. Mr. Ma specializes in internal audit and business risk consulting. He was a director and head of the Hong Kong operations of an international independent risk consulting firm from March 2004 to March 2007. The said firm provides business consultation services in numerous fields including business operations and management, information technology, financial management and internal auditing and risk consulting and investigative services. Mr. Ma is a Certified Public Accountant (Practicing) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"), a fellow member of the Association of Chartered Certified Accountants, a Certified Internal Auditor registered with the Institute of Internal Auditors and holder of Certification in Control Self-Assessment of the Institute of Internal Auditors. He is currently a council member of HKICPA. In addition, Mr. Ma is an independent non-executive director of Universe International Holdings Limited, Ming Fai International Holdings Limited and Dejin Resources Group Company Limited, the shares of which are all listed on the Main Board of The Stock Exchange.

NON-EXECUTIVE DIRECTOR

Mr. Ng Kwai Wah, Sunny, aged 32, was appointed as a non-executive Director on 30 August 2010. He holds a Bachelor degree of Commerce majoring in Actuarial Studies and Accounting from the University of New South Wales, Australia. He is also a certified public accountant in Hong Kong and Australia.

Before joining the Group, Mr. Ng worked in one of the international accounting firms and then established his own consulting business. Mr. Ng has also been appointed as various positions in listed and unlisted companies in Hong Kong and China. Mr. Ng has extensive experiences in corporate and financial management and business planning.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong, aged 50, was appointed as an independent non-executive Director 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 has over twenty-four years of experience in accountancy and financial management. In addition, Mr. Lee is also an independent non-executive director of Global Bio-chem Technology Group Company, the share of which is listed on the Main Board of the Stock Exchange. Mr. Lee is also a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Dongli, aged 38, was appointed as an independent non-executive Director 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 fourteen years working experience. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Jie, aged 29, was appointed as an independent non-executive Director on 30 June 2006. He is now working in the Government and Medical Section of the Business Development Department of Epson (China) Co., Limited. Mr. Yang graduated from Beijing Petrochemistry Institute majoring in Process Equipment and Control Engineering. He has over six 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, Taylor, aged 33, is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member 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 ten years experiences in professional accounting practices.

REPORT OF THE DIRECTORS

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 2010.

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 loss for the year ended 31 December 2010 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 26 to 28.

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2010 (2009: 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 96. 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 AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 32, 33 and 36 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 2010. 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 under review.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, 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 32.03% of the total sales for the year and sales to the largest customer included therein amounted to 18.31%. Purchases from the Group's five largest suppliers accounted for 21.07% of the total purchases for the year and purchases from the largest supplier included therein amounted to 5.45%.

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 (2009: 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
Mr. Ma Chun Fung, Horace (appointed on 21 September 2010)

Non-executive Director:

Mr. Ng Kwai Wah, Sunny (appointed on 30 August 2010)

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. Mr. Li Ge, Mr. Zhao Guo Wei, Mr. Ma Chun Fung, Horace, Mr. Ng Kwai Wah, Sunny, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. 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 pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The non-executive Director, Mr. Ng Kwai Wah, Sunny, the independent non-executive Directors, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, were 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 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 2010, 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.

OLD SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board could 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 Old Share Option Scheme became effective on 24 May 2002 (the date on which the Share Option Scheme was adopted) and terminated on 9 December 2010. The subscription price under the Old Share Option Scheme was determined by the Board in its absolute discretion, in any event, was not 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 was 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 was granted.

The maximum number of shares in respect of which options may be granted under the Old 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. 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 details and major provisions of the Old Share Option Scheme were set out in the circular of the Company dated 6 May 2002. The details of the termination of the Old Share Option Scheme were set out in the circular of the Company dated 24 November 2010.

On 22 January 2010 and 28 September 2010 (the "Date of Grant"), the Company has granted 110,400,000 and 27,600,000 share options to certain Eligible Persons (as defined in the Old Share Option Scheme) (the "Offerees") respectively, pursuant to the Old Share Option Scheme, representing approximately 7.972% and 1.9166% of the issued share capital of the Company as at 22 January 2010 and 28 September 2010 respectively. The share options entitle the offerees to subscribe for a total of 138,000,000 ordinary shares of HK$0.002 each in the capital of the Company upon exercise in full. The exercise prices of the share options granted were HK$0.1374 and HK$0.157 respectively, and the validity and exercise periods were two years and one year respectively, both commencing from the date of grant.

For the twelve months ended 31 December 2010, the details of the share option being granted, exercised, outstanding and lapsed under the Old Share Option Scheme are as follows:

Name and category of participants	Position held with the Group and the Company	Date of grant of share options*	Exercise period of share options	Number of unlisted share options: Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2010	Share price of the Company: Exercise price of share options	As at the date of grant of share options	As at the date of exercise of share options
								HK$	HK$	HK$
Employees										
Zhao Shiping	Director and General Manager of Langfang Huari Hengyu Home Co., Ltd. (subsidiaries of the Company)	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	–	–	0.1374 per share	0.1310 per share	0.164 per share
Shao Xiu Zhen	Account Manager of Lang Fang Huari Hengyu Home Co., Ltd.	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	–	–	0.1374 per share	0.1310 per share	0.168 per share
Other Participants										
Zheng Li Wen	Marketing Promotion Consultant	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	–	–	0.1374 per share	0.1310 per share	0.1370 per share
Fung Chan Man	Financial Advisor	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	–	–	13,800,000	0.1374 per share	0.1310 per share	N/A
Libon Fung	Accounting Advisor	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	–	–	13,800,000	0.1374 per share	0.1310 per share	N/A
Zhou Tian Tang	Furniture Design Consultant	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	–	–	0.1374 per share	0.1310 per share	0.168 per share
Zhou Xu En	Sales Consultant	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	–	–	13,800,000	0.1374 per share	0.1310 per share	N/A
Xiu Jun Cheng	Wood Specialist	22 January 2010	22 January 2010 to 21 January 2012	13,800,000	(13,800,000)	–	–	0.1374 per share	0.1310 per share	0.168 per share
Wang Gui Duo	Retail Management Consultant	28 September 2010	28 September 2010 to 27 September 2011	13,800,000	(13,800,000)	–	–	0.1570 per share	0.1550 per share	0.164 per share
Zhao Hua Jie	Finance Consultant	28 September 2010	28 September 2010 to 27 September 2011	13,800,000	–	–	13,800,000	0.1570 per share	0.1550 per share	N/A
				138,000,000	(82,800,000)	–	55,200,000			

* There is no vesting period of the share options.

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

NEW SHARE OPTION SCHEME

On 9 December 2010, the company adopted the new share option scheme (the "New Share Option Scheme"). Pursuant to the New 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 23 November 2010) 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 New 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 23 November 2010).

The New Share Option Scheme became effective for a period of 10 years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

The details and major provisions of the New Share Option Scheme were set out in the circular of the Company dated 23 November 2010.

Up to the date of this report, the Company has not grant any options under the New Share Option Scheme.

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 old share option scheme and the new share potion 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 OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2010, 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 Rule 5.46 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 capital** *(Note 1)*
Mr. Li Ge	37,012,000	–	351,518,000	–	388,530,000	22.27%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,744,555,970 issued shares as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, 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 of the Company

So far as were known to the Directors or chief executive of the Company, as at 31 December 2010, 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	**Nature and capacity of interest**	**Number of shares held**	**Approximate percentage of Company's total issued capital** *(Note 1)*
Substantial Shareholders			
True Allied Assets Limited	Beneficial owner	351,518,000	20.15%
Mr. Li Ge *(Note 2)*	Interest of controlled corporation	351,518,000	20.15%
	Beneficial owner	37,012,000	2.12%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,744,555,970 issued shares as at 31 December 2010.

(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 2010, the Directors are not aware of any other persons, other than the Directors and chief executives 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 to 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 substantial 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 during the year and as at the date of this report.

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 40 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 2010, 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 2010 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

A resolution for the reappointment of Messrs. HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

There have been no changes of auditors in the past three years.

On behalf of the Board
Mr. Li Ge
Executive Director

Hong Kong
24 March 2011

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 2010, 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 seven Directors, of whom three are executive Directors (one is the chairman and chief executive officer of the Company), one is non-executive Director 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 2010 were:

Executive Directors

Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei
Mr. Ma Chun Fung, Horace (appointed on 21 September 2010)

Non-executive Directors

Mr. Ng Kwai Wah, Sunny (appointed on 30 August 2010)

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 Rule 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 14 meetings in 2010. Details of the attendance of the Board are as follows:

Name of Directors	*Notes*	Meetings attended/held	Attendance rate
Executive Directors			
Mr. Li Ge *(chairman and chief executive officer)*		14/14	100%
Mr. Zhao Guo Wei		14/14	100%
Mr. Ma Chun Fung, Horace	*1*	3/3	100%
Non-executive Director			
Mr. Ng Kwai Wah, Sunny	*2*	7/7	100%
Independent non-executive Directors			
Mr. Lee Yuen Kwong		14/14	100%
Mr. Yang Dongli		14/14	100%
Mr. Yang Jie		14/14	100%

The following matters were discussed in the board meetings held in 2010:

(1) to approve, pursuant to the share option scheme adopted on 24 May 2002, the granting of 110,400,000 share options to eight eligible persons on 22 Jan 2010;

(2) to consider and approve the disposal of Jixiangniao Business;

(3) to consider and approve the disposal of Beijing, Shanghai and Dalian Business;

(4) to approve the appointment of Mr. Ng Kwai Wah, Sunny as non-executive Director;

(5) to consider and approve transfer the equity interests of Lang Fang Tian Feng Home Co., Ltd;

(6) to consider and approve a memorandum of understanding of a proposed acquisition;

(7) to approve the appointment of Mr. Ma Chun Fung, Horace as executive Director;

(8) to consider and approve a share placing and relevant issues;

(9) to approve, pursuant to the share option scheme adopted on 24 May 2002, the granting of 27,600,000 share options to two eligible persons on 28 Sept 2010;

(10) to approve the proposal of refreshment of general mandates to issue and repurchase shares, proposals for termination of existing share option scheme (adopted on 24 May 2002) and adoption of new share option scheme;

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

Notes:

(1) was appointed as an executive Director on 21 September 2010

(2) was appointed as a non-executive Director on 30 August 2010

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 and one non-executive Director form the majority of the seven-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 and non-executive Director 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, non-executive Director and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of remuneration package of the executive directors 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 held 2 meetings to review the existing remuneration packages of the existing executive directors and senior management of the Company, and to recommend the remuneration packages for the existing executive directors and newly appointed directors of the Company. All three committee members have attended all the 2 meetings.

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 2010, the Board has held two meetings for the nomination of directors.

AUDITORS' REMUNERATION

An amount of approximately HK$500,000 (2009: HK$500,000) was charged to the Group's income statement for the year ended 31 December 2010 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
Non-audit	–
	500

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 5 meetings in 2010, which were attended by all the three members. The Group's 2010 quarterly reports, 2010 half-yearly report, 2009 and 2010 annual results and 2009 and 2010 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 2010, 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 2010.

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.

HLB 國衛會計師事務所
Hodgson Impey Cheng

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

Chartered Accountants
Certified Public Accountants

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 26 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of its 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, 24 March 2011

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	*7*	**200,287**	297,460
Cost of sales		**(183,809)**	(252,309)
Gross profit		**16,478**	45,151
Other revenue	*7*	**1,545**	2,473
Other income	*8*	**22,253**	2,227
Impairment loss of goodwill	*18*	**(2,424)**	(61,576)
Equity-settled share based payments	*36*	**(8,004)**	–
Selling and distribution costs		**(19,416)**	(45,896)
Administrative expenses		**(25,323)**	(33,755)
Other operating expenses	*9*	**(8,129)**	(29,104)
Loss from operations	*8*	**(23,020)**	(120,480)
Finance costs	*10*	**(4)**	(4)
Loss before taxation		**(23,024)**	(120,484)
Taxation	*13*	**(6,574)**	–
Loss for the year		**(29,598)**	(120,484)
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		**10,066**	112
Total comprehensive loss for the year		**(19,532)**	(120,372)
Loss attributable to owners of the Company		**(29,598)**	(120,484)
Total comprehensive loss attributable to owners of the Company		**(19,532)**	(120,372)
Loss per share			
– Basic and diluted (HK cents per share)	*16*	**(2.01)**	(9.18)

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

Consolidated Statement Of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**91,609**	107,038
Goodwill	*18*	**–**	2,406
Intangible assets	*19*	**2,359**	10,219
Long-term prepayments	*20*	**–**	15,060
		93,968	134,723
Current assets			
Inventories	*22*	**87,477**	141,150
Trade receivables	*23*	**44,985**	41,157
Prepayments, deposits and other receivables	*24*	**138,273**	85,360
Cash and bank balances	*25*	**25,527**	23,531
		296,262	291,198
Less: Current liabilities			
Trade payables	*26*	**32,754**	39,462
Other payables and accruals	*27*	**5,639**	62,648
Receipts in advance	*28*	**29,210**	37,976
Amount due to a director	*29*	**2**	650
Amount due to a shareholder	*30*	**10,000**	–
Obligations under finance lease – due within one year	*31*	**15**	16
Income tax payable		**6,529**	–
		84,149	140,752
Net current assets		**212,113**	150,446
Total assets less current liabilities		**306,081**	285,169
Less: Non-current liability			
Obligations under finance lease – due after one year	*31*	**11**	27
Net assets		**306,070**	285,142
Capital and reserves			
Share capital	*32*	**3,489**	2,769
Reserves	*34(a)*	**302,581**	282,373
Total equity attributable to owners of the Company		**306,070**	285,142

Approved by the Board of Directors on 24 March 2011 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 2010

	Notes	**2010 HK$'000**	2009 HK$'000
Non-current asset			
Interests in subsidiaries	*21*	**–**	–
Current assets			
Amounts due from subsidiaries	*21*	**111,989**	107,212
Prepayments, deposits and other receivables	*24*	**592**	231
Cash and bank balances	*25*	**803**	130
		113,384	107,573
Less: Current liabilities			
Amount due to a subsidiary	*21*	**–**	108
Other payables and accruals	*27*	**998**	718
Amount due to a director	*29*	**–**	450
		998	1,276
Net current assets		**112,386**	106,297
Net assets		**112,386**	106,297
Capital and reserves			
Share capital	*32*	**3,489**	2,769
Reserves	*34(b)*	**108,897**	103,528
Total equity		**112,386**	106,297

Approved by the Board of Directors on 24 March 2011 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 2010

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** HK$'000	**(Accumulated losses)/ retained earnings** HK$'000	**Share options reserve** HK$'000	**Exchange reserve** HK$'000	**Statutory reserves** HK$'000	**Total equity** HK$'000
At 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 (loss)/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 and 1 January 2010	2,769	169,277	36,000	(945)	–	36,560	41,481	285,142
Loss for the year	–	–	–	(29,598)	–	–	–	(29,598)
Other comprehensive income for the year	–	–	–	–	–	10,066	–	10,066
Total comprehensive (loss)/ income for the year	–	–	–	(29,598)	–	10,066	–	(19,532)
Release upon disposal of a subsidiary	–	–	–	–	–	(10,995)	–	(10,995)
Recognition of equity-settled share-based payment	–	–	–	–	8,004	–	–	8,004
Current year appropriation	–	–	–	(2,019)	–	–	2,019	–
Issue of shares	554	–	–	–	–	–	–	554
Issue of shares upon exercise of share options	166	16,312	–	–	(4,830)	–	–	11,648
Premium arising from issue of new shares, net of expenses	–	31,249	–	–	–	–	–	31,249
At 31 December 2010	**3,489**	**216,838**	**36,000**	**(32,562)**	**3,174**	**35,631**	**43,500**	**306,070**

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

Consolidated Statement Of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Loss before taxation		**(23,024)**	(120,484)
Adjustments for:			
Interest income	7	**(49)**	(19)
Gain on disposals of property, plant and equipment		**–**	(10)
Depreciation	17	**17,624**	19,921
Amortisation of intangible assets	19	**3,151**	3,975
Amortisation of long-term prepayments	20	**7,587**	7,522
Provision for impairment loss of trade receivables	23	**4,050**	6,532
Provision for impairment loss of prepayments and other receivables	24	**4,069**	5,597
Impairment loss of goodwill	18	**2,424**	61,576
Revsersal of provision for impairment loss of trade receivables	23	**(7,985)**	(2,122)
Revsersal of provision for impairment loss of prepayments and other receivables	24	**(1,800)**	–
Write down of obsolete inventories	22	**2,367**	12,800
Equity-settled share-based payments expenses		**8,004**	–
Gain on disposal of a subsidiary	35	**(11,053)**	–
Finance costs	10	**4**	4
Operating cash flows before working capital changes		**5,369**	(4,708)
Decrease/(increase) in inventories		**56,404**	(10,321)
Increase in trade receivables		**(15,757)**	(6,713)
Increase in prepayments, deposits and other receivables		**(44,134)**	(49,944)
(Decrease)/increase in trade payables		**(8,044)**	19,076
(Decrease)/increase in other payables and accruals		**(58,516)**	18,376
Increase/(decrease) in receipts in advance		**1,393**	(6,165)
Decrease in amount due to a director		**(648)**	(299)
Increase in amount due to a shareholder		**10,000**	–
Cash used in operations		**(53,933)**	(40,698)
Interest element on finance lease rental payments		**(4)**	(4)
Net cash outflow from operating activities		**(53,937)**	(40,702)

	Notes	**2010 HK$'000**	2009 HK$'000
Cash flows from investing activities			
Interest received		**49**	19
Purchase of property, plant and equipment		**(848)**	(5,273)
Proceeds from disposal of property, plant and equipment		**1,573**	105
Proceeds from disposal of intangible assets		**4,011**	–
Proceeds from disposal of a subsidiary	35	**5,950**	–
Acquisition of intangible assets		**–**	(3,409)
Net cash inflow/(outflow) from investing activities		**10,735**	(8,558)
Cash flows from financing activities			
Issue of shares		**43,451**	17,863
Capital element of finance lease rental payments		**(17)**	(17)
Net cash inflow from financing activities		**43,434**	17,846
Net increase/(decrease) in cash and cash equivalents		**232**	(31,414)
Cash and cash equivalents at the beginning of the year		**23,531**	54,977
Effects of exchange differences on translating foreign operations		**1,764**	(32)
Cash and cash equivalents at the end of the year		**25,527**	23,531
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**25,527**	23,531

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 2010. 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.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 28 (as revised in 2008)	Investments in Associates
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 1 (revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKFRS 5 (Amendments as part of Improvements to HKFRSs issued in 2008)	Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 4 (Amendment)	Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The impact of the application of the above new HKFRSs is discussed below.

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

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of subsidiaries, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

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

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

HKAS 28 (as revised in 2008) Investments in Associates

The principle adopted under HKAS 27 (as revised in 2008) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

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

HK – Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK – Int 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

Except for those as disclosed above, the directors anticipate that the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 – Disclosures for First-time Adopters[2]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 February 2010

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

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

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

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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:

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

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 incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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 are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

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

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- 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* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

Business combinations *(Continued)*

Business combinations that took place on or after 1 January 2010 *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

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

Business combinations *(Continued)*

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their costs).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Impairment of non-financial assets (other than goodwill) *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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.

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

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.

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.

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

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

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss"(FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

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 and 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 those financial assets classified as at FVTPL.

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

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

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 FVTPL 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 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL 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 and is included in the consolidated statement of comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group 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.

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

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS 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. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

For AFS 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 that 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.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 AFS equity investments, a significant or prolonged decline in the fair value of the security 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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised 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.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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 AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. 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 through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and 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 FVTPL.

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

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL 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 FVTPL 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 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL 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 interest paid on the financial liability and is included in the consolidated statement of comprehensive income.

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

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

Other financial liabilities (including, trade payables, other payables and accruals, amount due to a shareholder and a director, and obligations under finance lease) 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 it transfers the financial asset and 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 in its entirety, 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.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

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.

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

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 positions, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 consolidated 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.

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

Income tax *(Continued)*

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.

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.

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

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.

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.

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

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 of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

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.

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

(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 2010 was approximately nil (2009: HK$2,406,000) after impairment loss of approximately HK$2,424,000 was recognised during the year ended 31 December 2010 (2009: HK$61,576,000). Details of the impairment loss are set out in Note 18.

(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 2010 was approximately HK$2,359,000 (2009: HK$10,219,000).

(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

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**76,862**	74,523
Financial liabilities		
Measured at amortised cost	**48,421**	102,803

(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.

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.

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

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

Market risk *(Continued)*

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**1,477**	4,391	**2,157**	2
Euro	**723**	–	**379**	66

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.

	2010	2009
	HK$'000	HK$'000
Impact of USD		
Profit or loss *(Note (i))*	**(34)**	219
Impact of Euro		
Profit or loss *(Note (ii))*	**17**	(3)

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)*

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 receivables, cash and bank balances and receipts in advance denominated in Euro not subject to cash flow hedge at year end.

The Group's sensitivity to foreign currency has decreased during the current year mainly due to decrease in foreign currency denominated receipts in advance.

Credit risk

As at 31 December 2009 and 2010, 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.

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and issuance of shares are 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.

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

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

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Within 1 year	Over 1 year	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
2010					
Non-derivative financial liabilities					
Trade payables	–	**32,754**	**–**	**32,754**	**32,754**
Other payables and accruals	–	**5,639**	**–**	**5,639**	**5,639**
Amount due to a director	–	**2**	**–**	**2**	**2**
Amount due to a shareholder	–	**10,000**	**–**	**10,000**	**10,000**
Obligations under finance lease	5	**15**	**11**	**26**	**26**
		48,410	**11**	**48,421**	**48,421**
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

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.

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

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

Fair value estimation *(Continued)*

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 or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quote 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.

There are no transfer between Level 1 and 2 in both years.

(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.

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 2010, 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 year end is as follows:

	2010 **HK$'000**	2009 HK$'000
Debt #	**26**	43
Shareholders' equity	**306,070**	285,142
Gearing ratio	**0.0085%**	0.0151%

\# Total debt comprises obligations under finance lease as detailed in Note 31.

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

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 and tax balances.

(a) Segment revenue and results

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:

	Direct retail of household products		**Indirect retail of household products and others**		**Total**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Segment revenue:						
Sales to external customers	**18,949**	36,350	**181,338**	261,110	**200,287**	297,460
Segment results	**806**	(141,002)	**(23,548)**	20,592	**(22,742)**	(120,410)
Interest income and unallocated gains					**14,013**	4,800
Corporate and other unallocated expenses					**(14,291)**	(4,870)
Finance costs					**(4)**	(4)
Loss before taxation					**(23,024)**	(120,484)
Taxation					**(6,574)**	–
Loss for the year					**(29,598)**	(120,484)

6. SEGMENT INFORMATION *(Continued)*

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

There were no inter-segment sales in the year (2009: 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 makers for the purposes of resource allocation and assessment of segment performance.

	Direct retail of household products		**Indirect retail of household products and others**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities						
Segment assets	**2,595**	6,351	**345,124**	418,898	**347,719**	425,249
Corporate and other unallocated assets					**42,511**	672
Total assets					**390,230**	425,921
Segment liabilities	**16,532**	69,360	**50,063**	69,914	**66,595**	139,274
Corporate and other unallocated liabilities					**17,565**	1,505
Total liabilities					**84,160**	140,779

6. SEGMENT INFORMATION *(Continued)*

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

	Direct retail of household products		Indirect retail of household products and others		Unallocated		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information								
Depreciation	**–**	2,057	**17,599**	17,814	**25**	50	**17,624**	19,921
Amortisation of intangible assets	**–**	–	**3,151**	3,975	**–**	–	**3,151**	3,975
Amortisation of long-term payments	**–**	–	**7,587**	7,522	**–**	–	**7,587**	7,522
Capital expenditure	**–**	502	**843**	4,771	**5**	–	**848**	5,273
Impairment loss of goodwill	**2,424**	61,576	**–**	–	**–**	–	**2,424**	61,576
Provision for impairment loss of trade receivables	**–**	–	**4,050**	6,532	**–**	–	**4,050**	6,532
Provision for impairment loss of prepayments and other receivables	**–**	–	**4,069**	5,597	**–**	–	**4,069**	5,597
Write down of obsolete inventories	**–**	–	**2,367**	12,800	**–**	–	**2,367**	12,800

6. SEGMENT INFORMATION *(Continued)*

(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 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	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sales						
The PRC	**18,949**	36,350	**173,336**	260,758	**192,285**	297,108
USA	**–**	–	**3,336**	245	**3,336**	245
European Union	**–**	–	**4,520**	87	**4,520**	87
Others	**–**	–	**146**	20	**146**	20
	18,949	36,350	**181,338**	261,110	**200,287**	297,460
Non-current assets						
The PRC	**–**	1,131	**93,960**	133,572	**93,960**	134,703

6. SEGMENT INFORMATION *(Continued)*

(c) Other information

Revenue from major products

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

	2010 **HK$'000**	2009 HK$'000
Indirect retail of household products and others	**181,338**	261,110
Direct retail of household products	**18,949**	36,350
	200,287	297,460

Information about major customers

Included in revenues arising from manufacturing and sales of household products of approximately HK$200,287,000 (2009: approximately HK$297,460,000) are revenues of approximately HK$36,679,000 (2009: approximately HK$35,211,000) which arose from sales to the Group's largest customer (the indirect retail of household products and other 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	
	2010 **HK$'000**	2009 HK$'000
Turnover:		
Indirect retail of household products and others	**181,338**	261,110
Direct retail of household products	**18,949**	36,350
	200,287	297,460
Other revenue:		
Bank interest income	**49**	19
Sundry income	**1,496**	2,454
	1,545	2,473

8. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost of inventories sold	**183,809**	252,309
Auditors' remuneration	**500**	500
Depreciation on owned property, plant and equipment	**17,599**	19,896
Depreciation on property, plant and equipment held under finance lease	**25**	25
	17,624	19,921
Minimum lease payments under operating leases:		
Plant and machinery	**4,264**	4,176
Land and buildings	**3,515**	14,705
	7,779	18,881
Employee benefits expense (excluding directors' remuneration *(Note 11)*):		
Wages, salaries and other allowances	**18,017**	27,933
Pension scheme contributions	**6,792**	4,892
Equity-settled share-based payments	**1,656**	–
	26,465	32,825
Amortisation of intangible assets *(Note 19)*	**3,151**	3,975
Amortisation of long term prepayments *(Note 20)*	**7,587**	7,522
Impairment loss of goodwill *(Note 18)*	**2,424**	61,576
Provision for impairment loss of trade receivables *(Note 23)*	**4,050**	6,532
Provision for impairment loss of prepayments and other receivables *(Note 24)*	**4,069**	5,597
Write down of obsolete inventories *(Note 22)*	**2,367**	12,800
Gain on disposals on property, plant and equipment	**–**	(10)
and after crediting:		
Other income:		
Reversal of provision for impairment loss of trade receivables *(Note 23)*	**7,985**	2,122
Reversal of provision for impairment loss of prepayments and other receivables *(Note 24)*	**1,800**	–
Gain on disposal of a subsidiary *(Note 35)*	**11,053**	–
Sundry income	**1,415**	105
	22,253	2,227

9. OTHER OPERATING EXPENSES

	The Group	
	2010	2009
	HK$'000	HK$'000
Provision for impairment loss of trade receivables *(Note 23)*	**4,050**	6,532
Provision for impairment loss of prepayments and other receivables *(Note 24)*	**4,069**	5,597
Loss on disposal of raw materials	**10**	16,975
	8,129	29,104

10. FINANCE COSTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Interests 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	
	2010	2009
	HK$'000	HK$'000
Fees	**1,510**	866
Other emoluments:		
Salaries, allowances and benefits in kind	**67**	–
Pension scheme contributions	**3**	–
	1,580	866

During the years ended 31 December 2009 and 2010, 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:

	2010 HK$'000	2009 HK$'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 (2009: 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
2010				
Executive directors:				
Mr. Zhao Guo Wei	**100**	**–**	**–**	**100**
Mr. Li Ge	**1,173**	**–**	**–**	**1,173**
Mr. Ma Chun Fung Horace (appointed on 21 September 2010)	**–**	**67**	**3**	**70**
	1,273	**67**	**3**	**1,343**
Non-executive director:				
Mr. Ng Kwai Wah Sunny (appointed on 30 August 2010)	**81**	**–**	**–**	**81**
2009				
Executive directors:				
Mr. Zhao Guo Wei	60	–	–	60
Mr. Li Ge	650	–	–	650
	710	–	–	710

11. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

There were no non-executive directors during the year ended 31 December 2009.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2010.

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 (2009: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: two) directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining three (2009: three) non-director, highest paid employees for the year are as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,177**	1,072
Pension scheme contributions	**34**	34
	1,211	1,106

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**3**	3

During the years ended 31 December 2009 and 2010, 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 (2009: 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 (2009: 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 (2009: Nil).

	The Group	
	2010	2009
	HK$'000	HK$'000
Current – Hong Kong	**–**	–
Current – PRC	**6,574**	–
Tax charge for the year	**6,574**	–

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

	2010		2009	
	HK$'000	**%**	HK$'000	%
Loss before taxation	**(23,024)**		(120,484)	
National tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	**(6,324)**	**(27.5)**	(30,984)	(25.7)
Tax concession for a subsidiary operating in the PRC	**(6,344)**	**(27.6)**	–	–
Tax effect of expenses not deductible for tax purpose	**5,761**	**25.0**	26,227	21.8
Tax effect of income not taxable for tax purpose	**(4,818)**	**(20.9)**	(19)	–
Tax effect of unrecognised temporary difference	**(1)**	**(0.0)**	5	–
Tax loss not recognised	**18,300**	**79.5**	4,771	3.9
Tax charge for the year at the Group's effective rate	**6,574**	**28.5**	–	–

13. TAXATION *(Continued)*

Deferred taxation

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

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**14,784**	325	**14,476**	17
Deductible temporary differences	**35**	3	**–**	–
	14,819	328	**14,476**	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 2010 included a loss of approximately HK$12,618,000 (2009: loss of HK$14,516,000) which has been dealt with in the consolidated financial statements of the Company (Note 34(b)).

15. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2010 (2009: Nil).

16. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2010	2009
	HK$'000	HK$'000
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation	**(29,598)**	(120,484)
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**1,470,469**	1,312,000

Diluted loss per share for the year ended 31 December 2010 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options were anti-dilutive.

There was no diluting event existed during the year ended 31 December 2009.

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 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 and 1 January 2010	92,610	7,744	336	51,173	5	6,146	158,014
Additions	78	–	–	–	–	770	848
Disposals	(509)	(4,477)	(151)	–	–	(307)	(5,444)
Disposal of a subsidiary	(229)	–	–	–	–	(462)	(691)
Exchange realignment	3,411	284	12	1,885	–	213	5,805
At 31 December 2010	95,361	3,551	197	53,058	5	6,360	158,532
Accumulated depreciation and impairment:							
At 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 and 1 January 2010	40,379	6,873	106	1,330	5	2,283	50,976
Charge for the year	15,025	–	31	1,072	–	1,496	17,624
Disposals	(122)	(3,573)	(43)	–	–	(133)	(3,871)
Disposal of a subsidiary	(122)	–	–	–	–	(57)	(179)
Exchange realignment	1,924	251	4	80	–	114	2,373
At 31 December 2010	57,084	3,551	98	2,482	5	3,703	66,923
Net book value:							
At 31 December 2010	**38,277**	**–**	**99**	**50,576**	**–**	**2,657**	**91,609**
At 31 December 2009	52,231	871	230	49,843	–	3,863	107,038

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 2010 was approximately nil (2009: HK$25,000).

18. GOODWILL

The Group

	HK$'000
Cost:	
At 1 January 2009	75,874
Exchange realignment	46
At 31 December 2009 and 1 January 2010	75,920
Exchange realignment	2,797
31 December 2010	78,717
Impairment:	
At 1 January 2009	11,868
Impairment loss recognised	61,576
Exchange realignment	70
At 31 December 2009 and 1 January 2010	73,514
Impairment loss recognised	2,424
Exchange realignment	2,779
At 31 December 2010	78,717
Carrying amount:	
At 31 December 2010	**–**
At 31 December 2009	2,406

18. GOODWILL *(Continued)*

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 2010 is all allocated to the segment in direct retail business of household products.

As at 31 December 2009 and 2010, with regard to the current market situation in the direct retail business of household products, the directors reviewed the carrying amount of goodwill arising from the acquisition of household products direct retail business. The recoverable amount of household products direct 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% (2009: 12%) per annum.

The main factor contributing to the impairment of household products direct retail business cash-generating unit was the failure of the household products direct 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 direct retail business cash-generating unit for the years ended 31 December 2009 and 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

19. INTANGIBLE ASSETS

The Group

	Trademarks
	HK$'000
Cost:	
At 1 January 2009	15,845
Additions	3,409
Exchange realignment	13
At 31 December 2009 and 1 January 2010	19,267
Disposals	(5,331)
Disposal of a subsidiary	(5,210)
Exchange realignment	710
At 31 December 2010	9,436
Amortisation:	
At 1 January 2009	5,067
Amortise for the year	3,975
Exchange realignment	6
At 31 December 2009 and 1 January 2010	9,048
Amortise for the year	3,151
Disposals	(1,320)
Disposal of a subsidiary	(4,227)
Exchange realignment	425
At 31 December 2010	7,077
Carrying amount:	
At 31 December 2010	**2,359**
At 31 December 2009	10,219

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. ("Huari Furniture") for 5 years from 2007.

	HK$'000
Cost:	
At 1 January 2009	22,576
Additions	15,060
Exchange realignment	10
At 31 December 2009 and 1 January 2010	37,646
Exchange realignment	1,248
At 31 December 2010	38,894
Amortisation:	
At 1 January 2009	7,525
Amortise for the year	7,522
Exchange realignment	9
At 31 December 2009 and 1 January 2010	15,056
Amortise for the year	7,587
Exchange realignment	637
At 31 December 2010	23,280
Carrying amount:	
At 31 December 2010	**15,614**
At 31 December 2009	22,590

20. LONG-TERM PREPAYMENTS *(Continued)*

	2010 HK$'000	2009 HK$'000
Analysed for reporting purposes as:		
Current assets (included in prepayments, deposits and other receivables *(Note 24)*)	**15,614**	7,530
Non-current assets	**–**	15,060
	15,614	22,590

The amount of rental prepayments of production plant and exhibition halls are classified as current assets as at 31 December 2010 as the Group received early termination notice from Huari Furniture to cease the rental agreements effective in 2011. In the opinion of the directors of the Company, the Group is currently in the progress of negotiation with Huari Furniture regarding the date of cessation of the rental agreements and consider that the Group will then recover the rental prepayments once the cessation of the rental agreements is finalised.

21. INTERESTS IN SUBSIDIARIES

	The Company	
	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**78**	78
Less: Provision for impairment loss of investment costs *(Note (i))*	**(78)**	(78)
	–	–
Amounts due from subsidiaries *(Note (ii))*	**165,045**	127,520
Less: Provision for impairment loss of amounts due from subsidiaries	**(53,056)**	(20,308)
	111,989	107,212
Amount due to a subsidiary	**–**	108

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

	The Company	
	2010 HK$'000	2009 HK$'000
Balance at the beginning of the year	**20,308**	3,572
Provision for impairment loss of amounts due from subsidiaries *(Note (iii))*	**32,748**	16,736
Balance at the end of the year	**53,056**	20,308

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) In view of the accumulated losses and net liabilities position of the Company's subsidiaries as at 31 December 2009 and 2010, 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. The amount due to a subsidiary included in the Company's current liabilities are unsecured, interest-free and repayable on demand.

(ii) In view of the accumulated losses and net liabilities position of the Company's subsidiaries for the year ended 31 December 2009 and 2010, 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 in values in respect of the amounts due from subsidiaries.

Particulars of the Company's subsidiaries at 31 December 2010 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
EMAX Venture Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Inactive, Hong Kong
General Asia Holdings Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
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

22. INVENTORIES

	The Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**43,218**	100,244
Work in progress	**20,008**	25,318
Finished goods	**26,687**	28,388
	89,913	153,950
Less: Write down of obsolete inventories	**(2,436)**	(12,800)
	87,477	141,150

Inventories of the Group were carried at net realisable value of approximately HK$1,493,000 (2009: HK$41,867,000) at the end of the reporting period.

Movement in write down of obsolete inventories is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Balance at the beginning of the year	**12,800**	–
Reversal of write down of obsolete inventories	**(12,800)**	–
Write down of obsolete inventories	**2,367**	12,800
Exchange realignment	**69**	–
Balance at the end of the year	**2,436**	12,800

23. TRADE RECEIVABLES

The average credit period on sales of goods is 30 (2009: 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	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**53,388**	53,370
Less: Provision for impairment loss of trade receivables	**(8,403)**	(12,213)
	44,985	41,157

As at 31 December 2010, the Group's trade receivables of approximately HK$8,403,000 (2009: approximately HK$12,213,000) 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	
	2010	2009
	HK$'000	HK$'000
0 – 30 days	**17,257**	15,324
31 – 60 days	**8,264**	7,952
61 – 90 days	**4,584**	1,801
91 – 180 days	**11,376**	4,813
Over 180 days	**3,504**	11,267
	44,985	41,157

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately HK$27,728,000 (2009: approximately HK$25,634,000) 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.

23. TRADE RECEIVABLES *(Continued)*

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

	The Group	
	2010	2009
	HK$'000	HK$'000
31 – 60 days	**8,264**	7,921
61 – 90 days	**4,584**	1,770
91 – 180 days	**11,376**	4,676
Over 180 days	**3,504**	11,267
	27,728	25,634

Movement in provision for impairment loss of trade receivables is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Balance at the beginning of the year	**12,213**	7,799
Reversal of provision for impairment loss	**(7,985)**	(2,122)
Provision for impairment loss of trade receivables	**4,050**	6,532
Exchange realignment	**125**	4
Balance at the end of the year	**8,403**	12,213

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Rental prepayment for production plant and exhibition hall	**15,614**	7,530	**–**	–
Prepayments *(Note (i))*	**83,895**	73,592	**83**	231
Other deposits and receivables	**6,909**	9,852	**509**	–
Deposit for a proposed acquisition *(Note (ii))*	**40,000**	–	**–**	–
	146,418	90,974	**592**	231
Less: Provision for impairment loss of prepayments and other receivables	**(8,145)**	(5,614)	**–**	–
	138,273	85,360	**592**	231

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Balance at the beginning of the year	**5,614**	17
Reversal of provision for impairment loss	**(1,800)**	–
Provision for impairment loss of prepayment and other receivables	**4,069**	5,597
Exchange realignment	**262**	–
Balance at the end of the year	**8,145**	5,614

Notes:

(i) Included in the amount of prepayments, approximately HK$74,693,000 (2009: approximately HK$64,283,000) is prepayment for purchase of raw materials.

(ii) For details, please refer to the announcements of the Company dated 21 September 2010, 18 November 2010 and 19 March 2011.

25. CASH AND BANK BALANCES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**25,527**	23,531	**803**	130

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$23,468,000 (2009: HK$23,177,000). 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	
	2010	2009
	HK$'000	HK$'000
0 – 30 days	**15,947**	11,381
31 – 60 days	**2,542**	10,762
61 – 90 days	**1,110**	2,674
91 – 180 days	**2,484**	5,527
Over 180 days	**10,671**	9,118
	32,754	39,462

27. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**1,547**	11,855	**200**	–
Value-added tax payables	**250**	42,084	**–**	–
Accruals	**3,842**	8,709	**798**	718
	5,639	62,648	**998**	718

28. RECEIPTS IN ADVANCE

	The Group	
	2010	2009
	HK$'000	HK$'000
Receipts in advance	**29,210**	37,976

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. AMOUNT DUE TO A SHAREHOLDER

The Group

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

31. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2009 and 2010, the total future minimum lease payments under finance lease and their present values are as follows:

The Group

	Minimum lease payments 2010 HK$'000	Minimum lease payments 2009 HK$'000	**Present value of minimum lease payments 2010 HK$'000**	Present value of minimum lease payments 2009 HK$'000
Amount payable:				
Within one year	**20**	21	**15**	16
In the second to fifth years, inclusive	**13**	33	**11**	27
Total minimum finance lease payments	**33**	54	**26**	43
Future finance charges	**(7)**	(11)		
Total net finance lease payables	**26**	43		
Portion classified as current liabilities	**(15)**	(16)		
Non-current liabilities	**11**	27		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. 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.

32. SHARE CAPITAL

Ordinary shares

	Par value HK$	Number of shares '000	Share capital HK$'000
Authorised:			
At 1 January 2009, 31 December 2009 and 31 December 2010	0.002	250,000,000	500,000
Issued and fully paid:			
At 1 January 2009	0.002	1,202,800	2,405
Placing of shares *(Note (i))*	0.002	182,000	364
At 31 December 2009 and 1 January 2010		1,384,800	2,769
Shares issued under share option scheme *(Note 36)*	0.002	82,800	166
Placing of shares *(Note (ii))*	0.002	276,956	554
At 31 December 2010	0.002	**1,744,556**	**3,489**

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.

(ii) On 8 October 2010, the placing agent, on behalf of the Company placed 276,956,000 shares of HK$0.002 each at a placing price of HK$0.116 each to not less than six investors. The Company received net proceeds from the subscription of approximately HK$31,803,000.

Share options

Details of the Company's share option scheme are included in Note 33 to the consolidated financial statements.

33. 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 31 December 2010, there was 55,200,000 (2009: nil) outstanding share options issued by the Company under the Share Option Scheme.

34. 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 29 of the consolidated financial statements.

The Group's contributed surplus as at 31 December 2009 and 2010 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.

34. RESERVES *(Continued)*

(a) The Group *(Continued)*

Movements in the statutory reserves are as follows:

	Statutory welfare fund HK$'000	Statutory reserve fund HK$'000	Total HK$'000
At 1 January 2009	13,826	27,655	41,481
Appropriations for the year	–	–	–
At 31 December 2009 and 1 January 2010	13,826	27,655	41,481
Appropriations for the year	673	1,346	2,019
At 31 December 2010	**14,499**	**29,001**	**43,500**

(b) The Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2009		151,778	36,000	(87,233)	–	100,545
Premium arising from issue of new shares	*32 Note (i)*	18,200	–	–	–	18,200
Share issue expenses	*32 Note (i)*	(701)	–	–	–	(701)
Loss for the year		–	–	(14,516)	–	(14,516)
At 31 December 2009 and 1 January 2010		169,277	36,000	(101,749)	–	103,528
Recognition of equity-settled share-based payments		–	–	–	8,004	8,004
Issue of shares upon exercise of share options		16,312	–	–	(4,830)	11,482
Premium arising from issue of new shares	*32 Note (ii)*	31,573	–	–	–	31,573
Share issue expenses	*32 Note (ii)*	(324)	–	–	–	(324)
Loss for the year		–	–	(45,366)	–	(45,366)
At 31 December 2010		**216,838**	**36,000**	**(147,115)**	**3,174**	**108,897**

The Company's contributed surplus as at 31 December 2009 and 2010 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

35. DISPOSAL OF A SUBSIDIARY

On 17 September 2010, a wholly owned subsidiary of the Company, Trader Group International Limited, entered into an agreement with an independent third party, to dispose 100% of the entire share capital of Lang Fang Tian Feng Home Co., Ltd, for a total consideration of approximately RMB5,557,000 (approximately HK$6,347,000). The disposal was completed on 30 September 2010.

Summary of the effects of the disposal of the subsidiary is as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	512
Intangible assets	983
Cash and cash equivalents	397
Inventories	101
Trade receivables	17,379
Prepayments, deposits and other receivables	361
Trade payables	(118)
Other payables and accruals	(1,768)
Receipts in advance	(11,558)
	6,289
Release of exchange reserve	(10,995)
Gain on diposal of a subsidiary	11,053
	6,347
Satisfied by:	
Cash consideration	6,347
Net cash outflow arising from disposal:	
Cash consideration	6,347
Cash and cash equivalents disposed	(397)
	5,950

36. SHARE-BASED PAYMENT TRANSACTIONS

During the year ended 31 December 2010, the Company had granted 138,000,000 options to employees and consultants under the Company's Share Option Scheme as disclosed in Note 33.

As at 31 December 2010, the number of shares in respect of which share options had been granted and remained outstanding under the Share Option Scheme was 55,200,000 (2009: nil), representing 3.2% (2009: nil) of the shares of the Company in issue at that date.

36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Details of specific categories of options are as follows:

Participants	Share option type	Date of grant of share options	Exercise period of share options	Exercise price of share options	Fair value at grant date	Closing price of the Company's shares immediately before the grant date
				HK$ per share	HK$ per share	HK$ per share
Employees and Consultants	2010A	22 January 2010	22 January 2010 to 21 January 2012	0.1374	0.06	0.139
Consultants	2010B	28 September 2010	28 September 2010 to 27 September 2011	0.157	0.05	0.162

Movement of share options during the year are as follows:

		Number of share options					
Participants	Share option type	Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31 December 2010
Employees and Consultants	2010A	–	110,400,000	(69,000,000)	–	–	41,400,000
Consultants	2010B	–	27,600,000	(13,800,000)	–	–	13,800,000
		–	138,000,000	(82,800,000)	–	–	55,200,000

The fair value of the share options granted during the year were priced using a Trinomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of a share option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price volatility over previous 1 year.

36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Inputs into the model:

	Option type 2010A	2010B
Grant date share price	HK$0.1310	HK$0.1550
Exercise price	HK$0.1374	HK$0.1570
Expected volatility	92.21%	90.30%
Option life	2 years	1 year
Risk free rate	0.539%	0.363%

The following share options granted under the Share Option Scheme were exercised during the year ended 31 December 2010:

Share option type	**Number exercised**	**Exercise date**	**Share price at exercise date**	**Weighted average closing price of the Company's shares immediately before the exercise date**
	'000		HK$	HK$
2010A	13,800	2 June 2010	0.137	0.1502
2010A	41,400	22 September 2010	0.168	0.1404
2010A	13,800	10 December 2010	0.164	0.1622
2010B	13,800	10 December 2010	0.164	0.1622
	82,800			

37. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2010 (2009: Nil).

38. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases an office property under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Land and buildings		
Within one year	**65**	695
In the second to fifth years, inclusive	**–**	100
	65	795

The Company had no operating lease commitment as at 31 December 2010 (2009: Nil).

39. MATERIAL RELATED PARTY TRANSACTIONS

Save as 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:

	2010	2009
	HK$'000	HK$'000
Short term employee benefits	**2,025**	1,334
Pension scheme contribution	**35**	12
Total compensation paid to key management personnel	**2,060**	1,346

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

40. SUBSEQUENT EVENT

No significant subsequent event took place subsequent to 31 December 2010.

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2011.

Five Year Financial Summary

For the year ended 31 December 2010

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				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**200,287**	297,460	477,827	447,814	160,414
Cost of sales	**(183,809)**	(252,309)	(323,895)	(296,060)	(110,423)
Gross profit	**16,478**	45,151	153,932	151,754	49,991
Other revenue	**1,545**	2,473	3,496	935	1,003
Other income	**22,253**	2,227	172	433	1,671
Impairment loss of goodwill	**(2,424)**	(61,576)	(11,868)	–	–
Equity-settled share-based payments	**(8,004)**	–	–	–	–
Selling and distribution costs	**(19,416)**	(45,896)	(43,521)	(17,193)	(1,041)
Administrative expenses	**(25,323)**	(33,755)	(35,985)	(16,140)	(7,513)
Fair value changes on financial assets at fair value through profit or loss	**–**	–	–	(288)	–
Other operating expenses	**(8,129)**	(29,104)	(84)	(416)	(105)
(Loss)/profit from operations	**(23,020)**	(120,480)	66,142	119,085	44,006
Finance costs	**(4)**	(4)	(4)	(3)	(724)
Fair value loss on derivative liability	**–**	–	–	–	(1,616)
(Loss)/profit before taxation	**(23,024)**	(120,484)	66,138	119,082	41,666
Taxation	**(6,574)**	–	–	(984)	–
(Loss)/profit for the year from continuing operations	**(29,598)**	(120,484)	66,138	118,098	41,666
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**–**	–	–	–	5,852
(Loss)/profit for the year	**(29,598)**	(120,484)	66,138	118,098	47,518
Attributable to:					
Owners of the Company	**(29,598)**	(120,484)	66,138	118,098	47,518

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**390,230**	425,921	495,665	432,731	99,256
Total liabilities	**(84,160)**	(140,779)	(108,014)	(130,946)	(36,086)