Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability in the Cayman Islands under the Companies Law (2005 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate holding company is Advent Group Limited, which is incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is Magnificent Capital Holding Limited, which is also incorporated in the BVI. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The consolidated financial statements are presented in United States dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding. Particulars of the principal activities of its subsidiaries are set out in note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Accounting standards not yet effective

The Group has not early applied the following new standards, amendment and interpretations issued by the HKICPA that have been issued but are not yet effective. The directors of the Company anticipate that the application of following standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

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

Accounting standards not yet effective (continued)

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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 income statement from the effective date of acquisition or 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 on consolidation.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers for the year in the course of the ordinary activities.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sale of goods are recognized when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Goodwill

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

Capitalized goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

On subsequent disposal of a business, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to accumulated profits.

Property, plant and equipment

Property, plant and equipment other than freehold land and construction in progress are stated at cost less accumulated depreciation and accumulated impairment loss.

Freehold land is stated at cost less accumulated impairment loss.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land and construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Club debenture

Club debenture is measured initially at purchase cost less accumulated amortization and accumulated impairment losses. Amortization is on a straight line basis over its estimated useful life.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its intangible and tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the intangible or tangible asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Borrowing costs

All borrowing costs are recognized as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other year and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in United States dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payables under operating leases are charged to profit or loss on a straight line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease terms on a straight line basis.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet 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 recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and deposits placed in a financial institution) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including bank borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments and hedging

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances, deposits placed in a financial institution, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (See Note 24 for details of these borrowings). Its is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In addition, the Group has concentration of credit risk by certain major customers with a balance of US$52,631,000. In order to minimise the credit risk, management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks and financial institution with high credit-ratings assigned by international credit-rating agencies.

Equity price risk

During the year, the Group was involved in trading equity securities which exposed the Group to equity price risk. The Group has delegated a team to be responsible for closely monitoring the fluctuating of the price so as to minimize the price risk exposure. The Group has disposed of the equity securities before year end.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

5. SEGMENTAL INFORMATION

Business and geographical segments

The Group is principally engaged in the manufacturing and trading of furniture and over 90% of the Group's sales are made to customers in the United States of America (the "U.S."). Accordingly, no business and geographical segment information is presented.

The Group's operations are located in the PRC, Taiwan and the U.S..

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by geographical area in which the assets are located.

	Carrying amount of segment assets		Addition to property, plant and equipment	
	2006	2005	**2006**	2005
	US$'000	*US$'000*	***US$'000***	*US$'000*
The PRC	**263,214**	256,933	**49,473**	18,377
Taiwan	**107,678**	39,226	**42**	–
The U.S.	**174,232**	148,496	**20,849**	738
	545,124	444,655	**70,364**	19,115

6. FINANCE COSTS

	2006	2005
	US$'000	*US$'000*
Interest on bank borrowings wholly repayable within five years	**1,637**	2,133

7. TAXATION

	2006	2005
	US$'000	*US$'000*
Tax charge represents:		
PRC Foreign Enterprise Income Tax ("FEIT")	**595**	291
U.S. income tax	**4,786**	9,561
Taiwan income tax	**4**	67
Deferred tax credit *(note 26)*	**(2,231)**	(1,838)
	3,154	8,081

No provision of Hong Kong Profits Tax has been made as the Group's profit neither arises in, nor is derived from, Hong Kong during both years.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

7. TAXATION (continued)

Pursuant to the relevant laws and regulations in the PRC, Lacquer Craft Mfg. Co., Ltd. (Dongguan) ("LCDG") and Lacquer Craft Mfg. Co., Ltd. (Zhejiang) ("LCZJ"), subsidiaries of the Company, are entitled to the exemptions from the FEIT for two years starting from its first profit-making year and to a 50% relief from the FEIT for the following three years. After offsetting the accumulated tax losses, LCZJ has not yet entered into its first profit-making year in 2006. Accordingly, no provision for the FEIT has been made on LCZJ. LCDG's first profit-making year was the year ended 31 December 2000. Accordingly, LCDG is subject to a 50% relief from the FEIT for each of the three years ended 31 December 2004. For the year ended 31 December 2006, LCDG still remained entitled to 50% relief from the FEIT as all of its sales were exported according to the relevant laws and regulations in the PRC. Applying this 50% relief, the income tax rate applicable to LCDG for the year ended 31 December 2006 was 12%.

U.S. income tax charge comprises federal income tax calculated at 34% and state income tax calculated at various rates on the estimated assessable profits of subsidiaries of the Company which were incorporated in the U.S..

Taiwan income tax is calculated at 25% of the deemed assessable profits of the branch of Samson International Enterprises Limited, a subsidiary of the Company, established in Taiwan.

The tax charge for the year based on the income tax rate which most of the Group's profit was assessed, can be reconciled to the profit before taxation per the consolidated income statements as follows:

	2006	2005
	US$'000	*US$'000*
Profit before taxation	**106,206**	97,113
Taxation at the U.S. federal income tax rate of 34%	**36,110**	33,018
U.S. state income tax at various rates	**278**	661
Tax effect of income not taxable for tax purpose	**(1,699)**	(1,591)
Tax effect of expenses not deductible for tax purpose	**2,442**	1,976
Tax effect of utilisation of tax losses previously not recognized	**(2,781)**	(2,766)
Effect of tax holidays granted to PRC subsidiaries	**(552)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(30,644)**	(23,217)
Tax charge for the year	**3,154**	8,081

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

8. PROFIT FOR THE YEAR

	2006	2005
	US$'000	*US$'000*
Profit for the year has been arrived at after charging:		
Staff costs	**59,446**	43,357
Share-based payment expense	**430**	–
Retirement benefit scheme contributions	**769**	524
Total staff costs including directors' remuneration *(note 9)*	**60,645**	43,881
Allowance for inventories	**–**	83
Amortization of club debenture	**8**	7
Auditors' remuneration	**802**	599
Cost of inventories recognized as an expense	**385,193**	339,978
Depreciation of property, plant and equipment	**11,427**	11,102
Impairment loss on trade receivables	**1,752**	604
Listing expenses charged to income statement	**–**	1,400
Loss on changes in fair value of derivative financial instruments	**48**	–
Loss on disposal of lease premium for land	**–**	451
Loss on disposal of property, plant and equipment	**132**	–
Release of lease premium for land	**243**	225
and after crediting:		
Bank interest income	**3,639**	1,277
Gain on disposal of investments held for trading	**2,158**	72
Gain on disposal of property, plant and equipment	**–**	200
Net exchange gain	**111**	112
Reversal of allowance for inventories*	**729**	–

* The reversal was the results of the utilisation of slow-moving inventories during the year ended 31 December 2006.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

9. DIRECTORS' AND EMPLOYEES' REMUNERATIONS

The emoluments paid or payable to each of the directors of the Company were as follows:

2006

	Shan Huei KUO US$'000	Yi-Mei LIU US$'000	Mohamad AMINOZZAKERI US$'000	Sheng Hsiung PAN US$'000	Huei-Chu HUANG US$'000	Ming-Jian KUO US$'000	Siu Ki LAU US$'000	Total US$'000
Fees	31	31	31	15	31	31	31	201
Other emoluments								
Salaries and other benefits	1,150	806	397	–	–	–	–	2,353
Share-based payments	–	–	11	–	–	–	–	11
Total emoluments	1,181	837	439	15	31	31	31	2,565

2005

	Shan Huei KUO US$'000	Yi-Mei LIU US$'000	Mohamad AMINOZZAKERI US$'000	Sheng Hsiung PAN US$'000	Huei-Chu HUANG US$'000	Ming-Jian KUO US$'000	Siu Ki LAU US$'000	Total US$'000
Fees	6	6	6	3	6	6	6	39
Other emoluments								
Salaries and other benefits	1,174	824	414	–	–	–	–	2,412
Total emoluments	1,180	830	420	3	6	6	6	2,451

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

9. DIRECTORS' AND EMPLOYEES' REMUNERATIONS (continued)

Of the five individuals with the highest emoluments in the Group, three (2005: three) are the directors of the Company whose emoluments are included above. The emoluments of the remaining two (2005: two) individuals are as follows:

	2006	2005
	US$'000	*US$'000*
Basic salaries and allowances	**845**	763
Retirement benefit scheme contributions	**11**	11
Share-based payments	**29**	–
	885	774

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**2**	1
	2	2

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

10. DIVIDEND

	2006	2005
	US$'000	*US$'000*
Dividends recognized as distributions during the year:		
Interim, paid – HK$0.058 per share (2005: nil)	**20,600**	–
Final, paid – HK$0.055 per share (2005: *Note*)	**19,550**	18,000
	40,150	18,000

The final dividend of HK$0.058 (2005: HK$0.055) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Note: During the year ended 31 December 2005, Samson Worldwide Limited, a subsidiary of the Company, paid dividends of US$18,000,000 to its then shareholders before the group reorganization.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following data:

	2006	2005
	US$'000	*US$'000*
Profit for the year and earnings for the purposes of basic earnings per share	**103,052**	89,032
Weighted average number of shares for the purposes of basic earnings per share	**2,760,000,000**	2,356,712,329

No diluted earnings per share has been presented because the adjusted exercise price of the share option granted as determined in accordance with HKFRS 2 "Share-based Payment" is higher than average market price of shares for year ended 31 December 2006.

The calculation of the basic earnings per share for the year ended 31 December 2005 was based on the Company's 2,300,000,000 shares deemed to have been issued on 1 January 2005 assuming the group reorganization had been completed on that date.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Furniture, fixture and equipment	Construction in progress	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
COST								
At 1 January 2005	2,932	43,281	41,128	4,831	1,121	18,786	9,078	121,157
Exchange adjustments	–	750	1,003	118	27	211	221	2,330
Additions	–	1,134	3,729	773	26	2,286	11,167	19,115
Transfer	–	9,638	1,684	–	–	840	(12,162)	–
Disposals	–	(3,377)	(160)	–	(45)	(1,833)	–	(5,415)
At 31 December 2005 and 1 January 2006	2,932	51,426	47,384	5,722	1,129	20,290	8,304	137,187
Exchange adjustments	–	1,437	1,644	198	39	388	288	3,994
Additions	3,976	1,541	12,560	222	229	1,154	45,486	65,168
Acquisition of business	650	3,332	825	–	294	95	–	5,196
Transfer	–	2,725	3,962	287	–	1,067	(8,041)	–
Disposals	–	–	(88)	–	–	(13)	(135)	(236)
At 31 December 2006	**7,558**	**60,461**	**66,287**	**6,429**	**1,691**	**22,981**	**45,902**	**211,309**
DEPRECIATION								
At 1 January 2005	–	2,812	7,195	320	536	6,643	–	17,506
Exchange adjustments	–	44	230	14	15	74	–	377
Provided for the year	–	3,645	3,996	405	184	2,872	–	11,102
Eliminated on disposals	–	(2,792)	(44)	–	(28)	(1,719)	–	(4,583)
At 31 December 2005 and 1 January 2006	–	3,709	11,377	739	707	7,870	–	24,402
Exchange adjustments	–	122	492	36	28	170	–	848
Provided for the year	–	2,793	4,717	483	201	3,233	–	11,427
Eliminated on disposals	–	–	(21)	–	–	(8)	–	(29)
At 31 December 2006	**-**	**6,624**	**16,565**	**1,258**	**936**	**11,265**	**-**	**36,648**
CARRYING AMOUNTS								
At 31 December 2006	**7,558**	**53,837**	**49,722**	**5,171**	**755**	**11,716**	**45,902**	**174,661**
At 31 December 2005	2,932	47,717	36,007	4,983	422	12,420	8,304	112,785

The freehold land is situated in the U.S.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The following rates per annum are used for the depreciation of property, plant and equipment:

Buildings	5%
Plant and machinery	10%
Leasehold improvements	10%
Motor vehicles	20%
Furniture, fixture and equipment	20%

13. LEASE PREMIUM FOR LAND

	2006	2005
	US$'000	*US$'000*
The Group's lease premium for land under operating lease is analysed as follows:		
Medium-term land use rights situated in the PRC	**11,645**	11,399
Analysed for reporting purposes as:		
Current asset	**266**	255
Non-current asset	**11,379**	11,144
	11,645	11,399

14. GOODWILL

	US$'000
COST	
At 1 January 2005 and 31 December 2005	–
Arising on acquisition of business	11,475
At 31 December 2006	**11,475**

Particulars regarding impairment testing on goodwill are disclosed in note 15.

15. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in note 14 has been allocated to individual cash generating units (CGUs). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2006 allocated to the unit is as follows:

	US$'000
Upholstery business	11,475

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

15. IMPAIRMENT TESTING ON GOODWILL (continued)

During the year ended 31 December 2006, management of the Group determined that there was no impairment of its CGU containing goodwill. The basis of the recoverable amount of the above CGU and their major underlying assumption is summarised below:

Upholstery business

The recoverable amount of this unit has been determined based on a value in use calculation. The Group expects the upholstery business would have an indefinite useful life, however for the purposes of the impairment test the calculation uses cash flow projections based on financial budgets approved by management covering a ten-year period, and a discount rate of 7.68%. The upholstery business's cash flows beyond the one-year period are extrapolated using a steady 5% growth rate for the first five years and no growth starting from the sixth year. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the upholstery business to exceed the aggregate recoverable amount of the upholstery business.

16. CASH SURRENDER VALUE OF LIFE INSURANCE

Amount under deferred compensation plan (note 25) has been invested in an insurance policy in accordance with the terms of the deferred compensation plan. The Group is the beneficiary of such investments. As at 31 December 2006, the carrying amount represents the cash surrender value of the policy and approximates its fair value.

17. CLUB DEBENTURE

	2006 ***US$'000***	2005 *US$'000*
COST		
At beginning and end of the year	**40**	40
AMORTIZATION		
At beginning of the year	**7**	–
Provided for the year	**8**	7
At end of the year	**15**	7
CARRYING AMOUNT	**25**	33

The club debenture is amortized over its estimated useful life of 5 years.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

18. INVENTORIES

	2006	2005
	US$'000	*US$'000*
Raw materials	**38,172**	26,794
Work in progress	**11,695**	11,720
Finished goods	**48,574**	44,294
	98,441	82,808

19. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 60 days to its trade customers.

The aged analysis of the Group's trade receivables net of allowance as at the balance sheet date are as follows:

	2006	2005
	US$'000	*US$'000*
Trade receivables:		
0 – 30 days	**88,184**	95,351
31 – 60 days	**4,020**	7,303
Over 60 days	**1,716**	1,998
	93,920	104,652
Other receivables	**18,807**	21,958
	112,727	126,610

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held by the Group, short–term bank deposits and deposits placed in a financial institution with an original maturity of three months or less. The directors consider that the carrying amounts of these assets approximate their fair values.

The balances of cash and cash equivalents held in the PRC of US$19,989,000 (2005: US$21,491,000) are subject to foreign exchange control.

The balances of cash and cash equivalents includes deposits placed in a financial institution amounting to US$15,191,000 (2005: US$61,894,000). The effective interest rate for the cash and cash equivalents is 3.7% (2005: 3.2%) per annum.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

21. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables as at the balance sheet date are as follows:

	2006 US$'000	2005 US$'000
Trade payables:		
0 – 30 days	**19,649**	25,111
31 – 60 days	**5,536**	10,375
Over 60 days	**6,479**	2,067
	31,664	37,553
Other payables	**31,204**	35,846
	62,868	73,399

The directors consider that the carrying amounts of trade and other payables approximate their fair values.

22. AMOUNT DUE TO A RELATED COMPANY

Name of related company	2006 US$'000	2005 US$'000
Samson Global Co., Ltd.	**–**	8
	–	8

The related company is beneficially owned by Mr. Shan Huei KUO and Ms. Yi-Mei LIU, both are directors of the Company.

The amount was unsecured, non-interest bearing and was fully repaid during the year.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 US$'000	2005 US$'000
Foreign currency forward contract	**48**	–

The Group entered into a variety of foreign currency forward contracts to manage of its exchange rate exposures.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2006, details of the outstanding foreign currency forward contracts to which the Group is committed is as follows:

Notional amount	Maturity	Exchange rates
Sell USD5,000,000	22 January 2007	RMB/USD7.8342
Buy USD5,000,000	22 January 2007	RMB/USD7.8420
Sell USD4,000,000	16 February 2007	RMB/USD7.8726
Buy USD4,000,000	16 February 2007	RMB/USD7.8550
Sell USD3,000,000	16 March 2007	RMB/USD7.8552
Buy USD3,000,000	16 March 2007	RMB/USD7.8353

There were no outstanding forward foreign exchange contracts as at 31 December 2005.

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on indicative rate provided by banks for equivalent instruments at the balance sheet date.

24. BANK BORROWINGS

All of the Group's borrowings were secured and denominated in the United Sates dollars.

The average effective interest rate on bank borrowings approximated 5.59% (2005: 4.44%).

The directors estimated the fair values of the Group's borrowings, by discounting their cash flows at the market rate, approximate the carrying amounts.

The Group has the following bank loans:

	2006 ***US$'000***	2005 *US$'000*
Revolving line of credit from Wachovia Bank, N.A. in which borrowings of up to US$25,000,000 were permitted. The loan was secured by substantially all of the assets of four subsidiaries of the Company and interest bearing at the 30 days London Interbank Offered Rate ("LIBOR") plus 0.35%	**21,873**	–
Term note, secured by substantially all of the assets of four subsidiaries of the Company and interest bearing at the 30 days LIBOR plus 0.25%	**25,000**	–
Total	**46,873**	–

25. DEFERRED COMPENSATION

The Group has adopted deferred compensation plan for a key executive. Under the terms of this plan, the executive may defer a discretionary annual amount up to US$100,000 of compensation which is payable to the executive upon his retirement, death or termination of service. This amount is invested by the Group in managed investment funds (note 16). The balance is stated at fair value at the balance sheet date.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

26. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognized by the Group and movements thereon during the year:

	Accelerated tax depreciation US$'000	Others (Note) US$'000	Total US$'000
At 1 January 2005	1,044	(1,613)	(569)
Charge (credit) to consolidated income statement for the year	(111)	(1,727)	(1,838)
At 31 December 2005 and 1 January 2006	933	(3,340)	(2,407)
Credit to consolidated income statement for the year *(note 7)*	(168)	(2,063)	(2,231)
At 31 December 2006	**765**	**(5,403)**	**(4,638)**

Note: The amounts represent deferred tax on temporary differences on trade receivables, goodwill, inventories and accrued expenses.

At 31 December 2006, the Group had unused tax losses of US$2,835,000 (2005: US$11,014,000) available to offset against future profits in Lacquer Craft Mfg. Co., Ltd. ("LCZJ"). No deferred tax asset has been recognized in respect of such tax losses due to the unpredictability of future profit streams of LCZJ. Tax losses will be expired within five years from the respective balance sheet date.

Deferred tax assets and liabilities have not offset for the purpose of balance sheet presentation as they relate to different tax authorities. The following is the analysis of the deferred taxation balance for financial reporting purposes:

	2006 ***US$'000***	2005 *US$'000*
Deferred tax liabilities	**516**	668
Deferred tax assets	**(5,154)**	(3,075)
	(4,638)	(2,407)

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized was US$52,975,000 (2005: US$48,875,000). No liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

27. SHARE CAPITAL

	Notes	Number of shares	Nominal value US$'000
Ordinary shares of US$0.05 each			
Authorized:			
On incorporation, at 31 December 2005 and 2006	*(i)*	6,000,000,000	300,000
Issued and fully paid:			
At 1 January 2005		–	–
Allotted and issued on incorporation	*(ii)*	1	–
Issue of shares on group reorganization	*(iii)*	2,299,999,999	115,000
Issue of shares through initial public offer	*(iv)*	460,000,000	23,000
At 31 December 2005 and 2006		**2,760,000,000**	**138,000**

The following changes in the share capital of the Company took place during the period from 11 July 2005 (date of incorporation) to 31 December 2006:

(i) The Company was incorporated with an authorized share capital of US$300,000,000 divided into 6,000,000,000 shares of US$0.05 each.

(ii) On 11 July 2005, 1 share of US$0.05 was allotted and issued.

(iii) On 24 October 2005, the Company issued 2,299,999,999 shares of US$0.05 each for a group reorganization. These new shares ranked pari passu in all respects with the then existing shares.

(iv) On 17 November 2005, the Company issued 460,000,000 shares of US$0.05 each at a price of HK$2.75 per share to the public. These new shares ranked pari passu in all respects with the then existing shares.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

28. SHARE OPTION SCHEME

On 24 October 2005, a share option scheme (the "Share Option Scheme") was approved by a resolution of the shareholders and adopted by a resolution of the board of directors of the Company (the "Board"). The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentives them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Group. The Board may, at its absolute discretion, offer any employee, management member or director of the Group and third party service providers options to subscribe for shares on the terms set out in the Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme when aggregated with the maximum number of shares in respect of which options may be granted under any other scheme involving the issue or grant of options over shares or other securities by the Group shall not exceed 10% of the issued share capital on 17 November 2005, (such 10% limit representing 276,000,000 shares).

The Share Option Scheme does not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of grant of the options, the Board may specify any such minimum period(s) up to five years.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

During the year, an aggregate of 10 million share options were granted, representing approximately 0.36% of the issued share capital of the Company.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

28. SHARE OPTION SCHEME (continued)

Details of the share options granted and outstanding under the Share Option Scheme during the year were as follows:

	Date of Grant (dd.mm.yy)	Exercise Price (HK$)	Vesting Date (dd.mm.yy)	Exercise Period (dd.mm.yy)	Number of Share Options As at 1.1.2006	Granted during the year	Lapsed during the year	As at 31.12.2006
Director:								
Mr. Mohamad AMINOZZAKERI	6.2.2006	4.2	6.2.2007	6.2.2007–16.11.2015	–	83,333	–	83,333
			6.2.2008	6.2.2008–16.11.2015	–	83,333	–	83,333
			6.2.2009	6.2.2009–16.11.2015	–	83,334	–	83,334
					–	250,000	–	250,000
Other employees:								
In aggregate	6.2.2006	4.2	6.2.2007	6.2.2007–16.11.2015	–	3,250,000	(95,000)	3,155,000
			6.2.2008	6.2.2008–16.11.2015	–	3,250,000	(95,000)	3,155,000
			6.2.2009	6.2.2009–16.11.2015	–	3,250,000	(95,000)	3,155,000
					–	9,750,000	(285,000)	9,465,000
Total					–	10,000,000	(285,000)	9,715,000

The exercise price of share options granted was fixed at the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant. The closing price of the shares of the Company immediately before the date of options granted on 6 February 2006 was HK$4.225.

The Company has used the Black-Scholes pricing model (the "Model") to value the share options granted during the period under review. The fair value of the share options granted on 6 February 2006 was approximately US$839,000. In current year, an amount of share option expense of US$430,000 has been recognized.

The Model is one of the commonly used models to estimate the fair value of the option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

28. SHARE OPTION SCHEME (continued)

Details of the fair values of share options determined at the date of grant using the Model with the inputs are as follows:

Date of grant	6 February 2006
Closing share price as at the date of grant	HK$4.2
Exercise price	HK$4.2
Risk-free interest rate	3.67% – 3.82%
Expected volatility *(Note)*	31%
Expected life of options	1 – 3 years
Expected dividend yield	3.8%

Note: Expected volatility was estimated by the annualised standard deviations of the continuously compounded rates of return on the comparable furniture companies in Hong Kong and the U.S.

29. MERGER RESERVE

The merger reserve represents the differences between the nominal value of the share of Samson Pacific Company Limited, the intermediate holding company of certain members of the Group, and the nominal value of its holding company, Samson Worldwide Limited's shares issued for a share swap on 31 December 2004.

30. STATUTORY RESERVE

Pursuant to the relevant regulations applicable to foreign investment enterprises established in the PRC, Lacquer Craft Mfg. Co., Ltd. (Dongguan) and Lacquer Craft Mfg. Co., Ltd. (Zhejiang) are required to transfer a certain percentage of their profit after taxation to the statutory reserve. The balances of the statutory reserve cannot be reduced except where approval is obtained from the relevant PRC authority to setoff accumulated losses or increase capital.

31. ACQUISITION OF BUSINESS

On 1 May 2006, the Group completed its acquisition of the business of upholstered residential furniture from an independent third party for a consideration of approximately US$19,154,000, which was satisfied by cash. The Company also incurred approximately US$221,000 of direct acquisition costs, which were accounted for as a part of the Company's purchase price allocation. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately US$11,475,000.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

31. ACQUISITION OF BUSINESS (continued)

The amounts of net assets acquired by the Group and the goodwill arising during the year are as follows:

	Acquiees' carrying amount before combination *US$'000*	**Fair value adjustments** *US$'000*	**Fair value** *US$'000*
Net assets acquired:			
Property, plant and equipment	4,345	851	5,196
Inventories	3,963	110	4,073
Trade and other receivables	649	–	649
Trade and other payables	(2,018)	–	(2,018)
	6,939	961	7,900
Goodwill			11,475
Total consideration satisfied by:			
Cash			19,375
Net cash outflow arising on acquisition:			
Cash consideration paid			(19,375)

The goodwill arising on the acquisition of the business is attributable to the anticipated profitability of the Group's products in the new markets as well as and the anticipated future operating synergies from the combination with existing products. Intangible assets, including a trademark and customer list, which could not be reliably measured.

The newly acquired business during the year contributed US$314,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

Minimum lease payments paid under operating leases during the year:

	2006 ***US$'000***	2005 *US$'000*
Premises and equipment	**3,764**	3,251

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

32. OPERATING LEASE ARRANGEMENTS (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	US$'000	*US$'000*
Within one year	**4,176**	2,879
In the second to fifth year inclusive	**11,444**	9,154
Over five years	**–**	436
	15,620	12,469

Operating lease payment represent rentals payable by the Group for its factories and staff quarters and equipment. Lease terms are range from one to seven years.

33. CAPITAL COMMITMENTS

	2006	2005
	US$'000	*US$'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	**10,163**	9,185
– authorized but not contracted for	**248**	–

34. PLEDGE OF ASSETS

At the balance sheet date, the Group had the following assets pledged to banks to secure the general banking facilities granted to the Group:

	2006	2005
	US$'000	*US$'000*
Inventories	**10,784**	10,771
Trade and other receivables	**52,752**	56,969
	63,536	67,740

35. RETIREMENT BENEFIT SCHEMES

In accordance with the relevant PRC rules and regulations, Lacquer Craft Mfg. Co., Ltd. (Dongguan) ("LCDG") and Lacquer Craft Mfg. Co., Ltd. (Zhejiang) ("LCZJ") are required to establish a defined contribution plan managed by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The contribution borne by LCDG and LCZJ are calculated according to the rate set by the municipal government.

The Company's U.S. subsidiaries have established defined contribution retirement plans for their eligible employees in the U.S. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

Name of related company	Nature of transactions	2006 US$'000	2005 US$'000
Uson Enterprises Limited	Transportation logistics service fee paid	**1,490**	1,794
Samson Global Co., Ltd.	Purchase of hardware components	**24**	59
	Rental paid	**18**	9

Both companies are beneficially owned by Mr. Shan Huei KUO and Ms. Yi-Mei LIU, both are directors of the Company.

Balances with related parties are set out in note 22.

Compensation of key management personnel

The remuneration of members of key management during the year was as follows:

	2006 US$'000	2005 US$'000
Short-term benefits	**3,410**	3,225
Share-based payments	**40**	–
	3,450	3,225

The remuneration of directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

37. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2006 is as follows:

	Note	2006 US$'000	2005 US$'000
NON-CURRENT ASSET			
Investment in a subsidiary		**209,886**	195,186
CURRENT ASSETS			
Other receivables		**–**	745
Amounts due from subsidiaries		**165,315**	181,357
Cash and cash equivalents		**59**	48
		165,374	182,150
CURRENT LIABILITIES			
Other payables		**474**	3,721
NET CURRENT ASSETS		**164,900**	178,429
		374,786	373,615
CAPITAL AND RESERVES			
Share capital		**138,000**	138,000
Reserves	*(a)*	**236,786**	235,615
		374,786	373,615

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

37. BALANCE SHEET OF THE COMPANY (continued)

Note:

(a) Reserves of the Company

	Share premium US$'000	Contributed surplus US$'000	Share option reserve US$'000	Accumulated profit US$'000	Total US$'000
Issue of shares at premium through initial public offer	140,079	–	–	–	140,079
Transaction costs attributable to issue of new shares	(4,509)	–	–	–	(4,509)
Contributed surplus arising on the group reorganization	–	80,186	–	–	80,186
Profit for the year	–	–	–	19,859	19,859
At 31 December 2005 and 1 January 2006	135,570	80,186	–	19,859	235,615
Profit for the year	–	–	–	40,891	40,891
Recognition of equity-settled share based payments	–	–	430	–	430
Dividend paid	–	–	–	(40,150)	(40,150)
At 31 December 2006	**135,570**	**80,186**	**430**	**20,600**	**236,786**

Contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's share issued in exchange thereof pursuant to a group reorganization.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of company	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share/ registered capital	Proportion of nominal value of share/ registered capital held by the Company Directly	Indirectly	Principal activities
Craftmaster Furniture Inc.	The U.S.	Ordinary	US$0.01	–	100%	Manufacturing and sales of furniture
#Lacquer Craft Mfg. Co., Ltd. (Dongguan) ("LCDG")	The PRC	Capital contribution	HK$310,913,340	–	100%	Manufacturing of furniture
#Lacquer Craft Mfg. Co., Ltd. (Zhejiang) ("LCZJ")	The PRC	Capital contribution	US$49,112,690	–	100%	Manufacturing of furniture

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of company	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid share/ registered capital	Proportion of nominal value of share/ registered capital held by the Company Directly	Indirectly	Principal activities
Legacy Classic Furniture Inc.	The U.S.	Ordinary	US$4,450,000	–	100%	Marketing and sales of furniture
Samson International Enterprises Limited	BVI/Taiwan	Ordinary	US$50,000	–	100%	Trading of furniture and procurement services
Samson Investment Holding Co.	The U.S.	Ordinary	US$0.10	–	100%	Investment holding
Universal Furniture International Inc.	The U.S.	Ordinary	US$0.35	–	100%	Marketing and sales of residential furniture

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

LCDG and LCZJ are wholly foreign owned enterprises.