

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Crisana International Inc., which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: <i>Amendments as a consequence of the Companies (Amendment) Ordinance 2005</i>
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the HKAS 27 Amendment has had no material impact on these financial statements.

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) HKAS 39 Financial Instruments: Recognition and Measurement *(Continued)*

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Amendment Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about the Group's operating segments and also about the Group's products and services, the geographical areas in which it operates, and its major customers.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS7 and HKFRS8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of an associate, is included as part of the Group's interest in an associate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (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.

Impairment of non-financial assets other than goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where 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.

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

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

Leasehold land and buildings	5%
Leasehold improvement	33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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 income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Licence rights of trademarks

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

Research and development costs

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

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

2.4 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 income statement so as to provide a constant periodic rate of charge over the lease terms.

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 lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as a separated component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

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

If, 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. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank loan)

Financial liabilities including trade and other payables and an interest-bearing bank loan are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand 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 values, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it 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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement 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 balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred tax liability arises from 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 and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, 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 each balance sheet date 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 each balance sheet date 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 balance sheet date.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

Employee benefits

Pension schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial model, further details of which are given in note 28. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Discounts or premiums relating to borrowings and ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the periods of the borrowings.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions 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 balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associate are not Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK\$21,454,000 (2005: HK\$21,454,000). More details are given in note 17.

4. SEGMENT INFORMATION

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

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

- (a) Wholesale of home furniture; and
- (b) Retail of home furniture

In determining the Group's geographical segments, revenues and results 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.

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

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

Year ended 31 December 2006	Wholesale HK\$'000	Retail HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue:				
Sales to customers	409,421	79,722	–	489,143
Intersegment sales	38,508	–	(38,508)	–
Total	447,929	79,722	(38,508)	489,143
Segment results	32,154	(1,404)	–	30,750
Unallocated gains				3,324
Unallocated expenses				(3,690)
Finance costs				(508)
Share of profits of an associate				55
Equity-settled share option arrangements				(6,520)
Profit before tax				23,411
Tax				(307)
Profit for the year				23,104

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended	Wholesale	Retail	Elimination	Consolidated
31 December 2005	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:				
Sales to customers	369,550	43,707	–	413,257
Intersegment sales	22,589	–	(22,589)	–
Total	392,139	43,707	(22,589)	413,257
Segment results	75,810	443	–	76,253
Unallocated gains				9,453
Unallocated expenses				(674)
Finance costs				(453)
Share of profits of an associate				207
Equity-settled share option arrangements				(4,340)
Profit before tax				80,446
Tax				(2,254)
Profit for the year				78,192

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2006	Wholesale HK\$'000	Retail HK\$'000	Consolidated HK\$'000
Assets and liabilities			
Segment assets	465,114	52,214	517,328
Interest in an associate			8,321
Unallocated assets			71,257
Total assets			596,906
Segment liabilities	134,506	4,076	138,582
Unallocated liabilities			83,760
Total liabilities			222,342
Other segment information:			
Depreciation	22,844	3,614	26,458
Goodwill	–	21,454	21,454
Capital expenditure	110,433	3,299	113,732

4. SEGMENT INFORMATION *(Continued)***(a) Business segments** *(Continued)*

Year ended 31 December 2005	Wholesale HK\$'000	Retail HK\$'000	Consolidated HK\$'000
Assets and liabilities			
Segment assets	370,650	54,024	424,674
Interest in an associate			7,967
Unallocated assets			112,175
Total assets			544,816
Segment liabilities	102,936	6,824	109,760
Unallocated liabilities			87,090
Total liabilities			196,850
Other segment information:			
Depreciation	17,014	1,090	18,104
Goodwill	–	21,454	21,454
Capital expenditure	25,152	10,206	35,358

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Segment revenue	2006 HK\$'000	2005 HK\$'000
Sales to the People's Republic of China (the "PRC")	474,890	400,671
Sales to elsewhere in Asia	4,208	10,520
Sales to Australia	–	418
Sales to South Africa	23	–
Sales to Europe	3,262	1,648
Sales to Middle East	6,760	–
	489,143	413,257

Other segment information	Segment assets		Capital expenditure	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The PRC	596,906	544,816	113,732	35,358

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	2006 HK\$'000	2005 HK\$'000
Revenue	489,143	413,257
Other income and gains		
Bank interest income	440	1,187
Service income	38,821	41,229
Gain on disposal of equity investments at fair value through profit or loss	2,050	1,243
Others	834	7,023
	42,145	50,682
	531,288	463,939

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6. PROFIT BEFORE TAX

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

	Notes	2006 HK\$'000	2005 HK\$'000
Cost of goods sold		361,605	274,282
Depreciation	14	26,458	18,104
Amortisation of licence rights of trademarks*	16	809	758
Loss on disposal of items of property, plant and equipment		1,265	27
Research and development costs		3,430	1,903
Operating lease rentals on buildings		13,953	15,676
Auditors' remuneration		1,820	2,380
Employee benefits expense (excluding directors' remuneration (note 8))			
Wages and salaries		37,144	57,164
Equity-settled share option expense		6,520	4,340
Pension scheme contributions		1,378	913
Less: Forfeited contributions		–	–
Net pension scheme contributions		1,378	913
		45,042	62,417
Foreign exchange losses, net		14	239
Interest income		(440)	(1,187)
Service income		(38,821)	(41,229)
Gain on disposal of equity investments at fair value through profit or loss		(2,050)	(1,243)

* The amortisation of licence rights of trade marks and impairment of goodwill for the year are included in "Administrative expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	2006 HK\$'000	2005 HK\$'000
Interest on a bank loan		508	453

8. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Fees	1,692	1,651
Other emoluments:		
Basic salaries, allowances and benefits in kind	7,752	8,378
Employee share option benefits	–	2,492
Discretionary bonuses	1,077	646
	10,521	13,167

(a) Independent non-executive directors

	2006		2005	
	Fees HK\$'000	Employee share option benefits HK\$'000	Fees HK\$'000	Employee share option benefits HK\$'000
Mr. Donald H. Straszheim	312	–	312	–
Mr. Tsao Kwang Yung, Peter	–	–	120	202
Mr. Ma Ming Fai, Gary	–	–	20	–
Mr. Yau Chung Hong	240	–	114	202
Mr. Chang Chu Fai, J. Francis	240	–	60	156
	792	–	626	560

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees HK\$'000	Salaries, allowances and benefits HK\$'000	Discretionary bonuses HK\$'000	Employee share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total emoluments HK\$'000
2006						
Executive directors:						
Mr. Tse Kam Pang	300	3,000	500	-	-	3,800
Mr. Lam Toi	300	2,592	217	-	-	3,109
Mr. Ma Ming Fai, Gary	300	2,160	360	-	-	2,820
	900	7,752	1,077	-	-	9,729

	Fees HK\$'000	Salaries, allowances and benefits HK\$'000	Discretionary bonuses HK\$'000	Employee share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total emoluments HK\$'000
2005						
Executive directors:						
Mr. Tse Kam Pang	300	3,250	250	-	-	3,800
Mr. Lam Toi	300	2,808	216	-	-	3,324
Ms. Lam Ning, Joanna	150	300	-	-	-	450
Mr. Ma Ming Fai, Gary	275	2,020	180	1,932	-	4,407
	1,025	8,378	646	1,932	-	11,981

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

During the year, discretionary bonuses paid or receivable by the executive directors amounted to HK\$1,077,000 (2005: HK\$646,000). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: three) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Basic salaries, other allowances and benefits in kind	1,211	1,079
Pension scheme contributions	26	26
Employee share option benefits	1,012	–
Discretionary bonuses	–	654
	2,249	1,759

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

	2006 HK\$'000	2005 HK\$'000
Nil to HK\$1,000,000	1	2
HK\$1,000,000 to HK\$1,500,000	1	–
HK\$1,500,000 to HK\$2,000,000	–	–
	2	2

During the year, share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 28. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures. The discretionary bonuses paid to or receivable by the five highest paid individuals of the Group were Nil (2005: HK\$654,300). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: Nil).

10. TAX

Hong Kong profits tax has not been provided at the rate of 17.5% (2005: 17.5%) as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006 HK\$'000	2005 HK\$'000
Group:		
Current – Hong Kong profits tax	–	–
Current – Macao profits tax	–	5,754
Current – PRC corporate income tax	307	11,207
PRC corporate income tax written back	–	(14,707)
Total tax charge for the year	307	2,254

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Profit before tax	23,411	80,446
Calculated at 24.0% (2005: 24.0%)	5,519	19,307
Lower income tax rates for Hong Kong at 17.5% (2005: 17.5%)	343	891
Lower income tax rates for the PRC at 10.5% (2005: 10.5%)	(56)	(3,925)
Lower income tax rates for Macao at 15.75% (2005: 15.75%)	–	(2,183)
Income not subject to tax	(12,237)	(1,442)
Expenses not deductible for tax	7,442	2,479
Impact of tax holiday of:		
Wanlibao (Guangzhou) Furniture Limited (“Wanlibao”)	(628)	(535)
Guangzhou Fufa Furniture Limited (“Fufa”)	(1,008)	(233)
Simply Dongguan Furniture Limited (“Simply”)	(546)	–
PRC corporate income tax written back	–	(14,707)
Tax losses utilised from previous periods	–	(659)
Others	1,478	3,261
At the effective income tax rate of 1.3% (2005: 2.8%)	307	2,254

10. TAX (Continued)

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

According to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprise, Wanlibao, Fufa, Guangzhou Yufa Furniture Company Limited ("Yufa") and Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply, wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a preferential corporate income tax rate of 24%, and are also exempt from PRC corporate income tax for the first two profitable years of their operations, and thereafter, are eligible to a 50% relief from PRC corporate income tax for the following three years.

The current year income tax rate of Wanlibao is 12% as it is in its fourth profit making year. No corporate income tax of Yufa, Fuli and Fufa have been provided for during the year as Yufa incurred a loss during the year and Fuli is in the pre-operating period. Full Fat and Simply are in their second profit making year, and are exempt from PRC corporate income tax.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK\$11,164,000 (2005: HK\$51,443,000), which has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	Group	
	2006 HK\$'000	2005 HK\$'000
Interim dividend – Nil (2005: HK9.5 cents) per ordinary share	–	25,612
Proposed final dividend – HK2.0 cents (2005: HK5.5 cents) per ordinary share	5,848	14,306
	5,848	39,918

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

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

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

	2006 HK\$'000	2005 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	23,104	78,192
	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	260,114,000	252,549,000
Effect of dilution – weighted average number of ordinary shares: Share options	1,008,848	601,000
	261,122,848	253,150,000

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost or valuation	133,434	8,461	75,401	8,825	8,069	14,080	248,270
Accumulated depreciation	(18,563)	(874)	(23,611)	(3,827)	(3,357)	-	(50,232)
Net carrying amount	114,871	7,587	51,790	4,998	4,712	14,080	198,038
At 1 January 2006, net of accumulated depreciation	114,871	7,587	51,790	4,998	4,712	14,080	198,038
Additions	37,133	2,670	22,363	2,154	1,497	47,915	113,732
Disposals	(320)	(200)	(438)	(27)	(280)	-	(1,265)
Depreciation provided during the year	(6,715)	(3,154)	(11,858)	(1,939)	(2,792)	-	(26,458)
Transfers	16,238	-	-	-	-	(16,238)	-
Reclassified to prepaid land lease payments	(6,203)	-	-	-	-	-	(6,203)
Exchange realignment	2,158	284	2,025	136	125	526	5,254
At 31 December 2006, net of accumulated depreciation	157,162	7,187	63,882	5,322	3,262	46,283	283,098
At 31 December 2006:							
Cost or valuation	182,049	10,972	96,266	10,887	8,851	46,283	355,308
Accumulated depreciation	(24,887)	(3,785)	(32,384)	(5,565)	(5,589)	-	(72,210)
Net carrying amount	157,162	7,187	63,882	5,322	3,262	46,283	283,098
Analysis of cost or valuation:							
At cost	-	10,972	96,266	10,887	8,851	46,283	173,259
At 31 December 2006 valuation	157,162	-	-	-	-	-	157,162
	157,162	10,972	96,266	10,887	8,851	46,283	330,421

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)**Group** (Continued)

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2005							
At 31 December 2004 and at 1 January 2005:							
Cost or valuation	128,653	-	68,346	4,928	5,248	420	207,595
Accumulated depreciation	(11,115)	-	(15,938)	(2,468)	(1,980)	-	(31,501)
Net carrying amount	117,538	-	52,408	2,460	3,268	420	176,094
At 1 January 2005, net of accumulated depreciation	117,538	-	52,408	2,460	3,268	420	176,094
Additions	3,043	6,614	5,491	3,646	2,648	13,916	35,358
Acquisition of business	-	1,847	-	164	151	-	2,162
Disposals	-	-	-	(4)	(57)	-	(61)
Depreciation provided during the year	(7,249)	(874)	(7,320)	(1,317)	(1,344)	-	(18,104)
Transfers	265	-	-	-	-	(265)	-
Exchange realignment	1,274	-	1,211	49	46	9	2,589
At 31 December 2005, net of accumulated depreciation	114,871	7,587	51,790	4,998	4,712	14,080	198,038
At 31 December 2005:							
Cost or valuation	133,434	8,461	75,401	8,825	8,069	14,080	248,270
Accumulated depreciation	(18,563)	(874)	(23,611)	(3,827)	(3,357)	-	(50,232)
Net carrying amount	114,871	7,587	51,790	4,998	4,712	14,080	198,038
Analysis of cost or valuation:							
At cost	77,134	8,461	75,401	8,825	8,069	14,080	191,970
At 31 December 2005 valuation	56,300	-	-	-	-	-	56,300
	133,434	8,461	75,401	8,825	8,069	14,080	248,270

The leasehold land and buildings of the Group are located in Mainland China, and have a net book value of HK\$157,162,000 as at 31 December 2006. The leasehold land is held under a long term lease.

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

Leasehold land was reclassified to prepaid land lease payments at its carrying value during the year. Leasehold land and buildings at 31 December 2006 represented buildings which were revalued at 31 December 2006, by LCH Asia-Pacific Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$157,162,000 based on their existing use.

15. PREPAID LAND LEASE PAYMENTS

	Group and Company	
	2006	2005
	HK\$'000	HK\$'000
Carrying amount at 1 January	13,860	638
Additions during the year	–	13,219
Reclassified during the year	6,203	–
Recognised during the year	(610)	(12)
Exchange realignment	381	15
Carrying amount at 31 December	19,834	13,860
Current portion included in prepayments, deposits and other receivables	(610)	(188)
Non-current portion	19,224	13,672

The leasehold land is held under a long term lease and is situated in the PRC.

16. OTHER INTANGIBLE ASSETS

Group

	Licence rights of trademarks HK\$'000
31 December 2006:	
Cost at 1 January 2006, net of accumulated amortisation	6,678
Addition during the year	5
Amortisation provided during the year	(809)
Exchange realignment	250
At 31 December 2006	<u>6,124</u>
At 31 December 2006:	
Cost	8,003
Accumulated amortisation	(1,879)
Net carrying amount	<u>6,124</u>

Group

	Licence rights of trademarks HK\$'000
31 December 2005:	
At 1 January 2005:	
Cost	7,998
Accumulated amortisation	(706)
Net carrying amount	<u>7,292</u>
Cost at 1 January 2005, net of accumulated amortisation	7,292
Amortisation provided during the year	(758)
Exchange realignment	144
At 31 December 2005	<u>6,678</u>
At 31 December 2005 and at 1 January 2006:	
Cost	7,998
Accumulated amortisation	(1,320)
Net carrying amount	<u>6,678</u>

17. GOODWILL

	Group HK\$'000
31 December 2006	
At 1 January 2006:	
Cost	26,111
Accumulated impairment	(4,657)
Net carrying amount	21,454
Cost at 1 January 2006, net of accumulated impairment	21,454
At 31 December 2006:	
Cost	26,111
Accumulated impairment	(4,657)
Net carrying amount	21,454
	Group HK\$'000
31 December 2005	
At 1 January 2005	
Cost	4,657
Accumulated impairment	(4,657)
Net carrying amount	–
Cost at 1 January 2005, net of accumulated impairment	–
Acquisition of business	21,454
At 31 December 2005	21,454
At 31 December 2005:	
Cost	26,111
Accumulated impairment	(4,657)
Net carrying amount	21,454

17. GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combination of the prior year has been allocated to the retail of home furniture segment.

The recoverable amount of goodwill has been determined based on value in use calculation using cash flow projections according to financial budgets approved by management covering a ten-year period. The discount rate 8% (2005: 8%) applied to the cash flow projections was determined after considering lending rates offered to enterprises by large financial institutions in Mainland China. The annual growth rate used is in line with the average growth rate of the industry.

Key assumptions were used in the value in use calculation of the above cash-generating unit for 31 December 2006 and 31 December 2005. 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, adjusted for expected efficiency improvements and raw materials price inflation.

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

18. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	45,344	45,344
Due from subsidiaries	120,943	118,073
	166,287	163,417

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

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US\$1,000	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	100	Investment holding and trading of furniture
Wanlibao	PRC (Note 1)	PRC	Paid-up registered US\$5,700,000	–	100	Manufacture and trading of furniture
Fufa	PRC (Note 2)	PRC	Paid-up registered US\$20,000,000	–	100	Manufacture and trading of furniture
Simply	PRC (Note 3)	PRC	Paid-up registered HK\$18,000,000	–	100	Manufacture and trading of furniture
Yufa	PRC (Note 4)	PRC	Paid-up registered HK\$10,000,000	–	100	Manufacture and trading of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macao	Ordinary US\$1	–	100	Trading of furniture

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2006 were as follows *(Continued)*:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
King Apex International Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Lead Concept Development Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Smart Excel International Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Umbrella Group Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Coralview Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Ridgecrest Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Moffat Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Knollwood Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Sino Full	Macao	Macao	Ordinary MOP100,000	–	100	Dormant

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2006 were as follows *(Continued)*:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Tomford Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Fuli	PRC (Note 5)	PRC	Registered capital HK\$25,000,000	–	100	Dormant
Censtar International Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Chitaly Furniture Global Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Spring Valley Properties Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Competent Holdings Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Investment activities
Royal Furniture Anhui Limited *	PRC (Note 6)	PRC	Registered capital HK\$1,444,234	–	100	Dormant

* Established during the year

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

1. Wanlibao is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 15 June 1999. The tenure of the articles of association, and the terms of operations of Wanlibao, are 30 years from 9 July 1999.
2. Fufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 13 March 2003. The tenure of the articles of association, and the terms of operations of Fufa, are 20 years from 22 April 2003.
3. Simply is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 28 March 2004. The tenure of the articles of association, and the terms of operations of Simply, are 12 years from 17 May 2004.
4. Yufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association, and the terms of operations of Yufa, are 20 years from 14 September 2005.
5. Fuli is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association, and the terms of operations of Fuli, are 20 years from 10 December 2005.
6. Royal Furniture Anhui Limited is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 5 June 2006. The tenure of the articles of association, and the terms of operations of Royal Furniture Anhui Limited, are from 5 June 2006 to 28 November 2025.

19. INTEREST IN AN ASSOCIATE

	Group	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	–	–
Share of net assets	381	313
Goodwill on acquisition	6,931	6,682
	7,312	6,995
Loans to an associate	1,009	972
	8,321	7,967

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values. The Group's trade receivable with an as an associate is disclosed in note 22 to the financial statements.

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31 December 2006

19. INTEREST IN AN ASSOCIATE *(Continued)*

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Gold Power International Co., Ltd. ("Gold Power")*	Ordinary shares US\$1 each	BVI	40	Investment activities and retail of furniture

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

	2006	2005
	HK\$'000	HK\$'000
Assets	3,556	2,756
Liabilities	2,602	1,974
Revenue	17,365	12,962
Profit	140	517

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Unlisted equity investments, At cost	5,800	–

As at 31 December 2006, the above unlisted equity investments were stated at cost because the directors are of the opinion that their fair value could not be measured reliably.

21. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Raw materials	31,809	23,024
Work in progress	13,608	12,213
Finished goods	75,222	64,020
	120,639	99,257

22. TRADE RECEIVABLES

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

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, and net of provisions, is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 30 days	8,902	10,604
31 days to 90 days	3,196	4,473
91 days to 180 days	2,897	2,959
Over 180 days	1,437	1,139
	16,432	19,175

Included in the Group's trade receivables is an amount due from the Group's associate of HK\$1,820,000 (2005: HK\$2,073,000) which is repayable on similar credit terms to those offered to the major customers of the Group.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	62,662	119,313	219	456

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$46,943,364 (2005: HK\$58,986,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximates to its fair values.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 30 days	51,715	36,582
31 days to 90 days	26,993	22,192
91 days to 180 days	2,041	2,662
181 days to 360 days	2,134	204
Over 360 days	257	122
	83,140	61,762

25. INTEREST-BEARING BANK LOAN

	Effective interest rate (%)	Maturity	Group	
			2006 HK\$'000	2005 HK\$'000
Current				
Bank loan – secured	Hong Kong dollars prime rate – 2.6	2007	638	607

	Effective interest rate (%)	Maturity	Group	
			2006 HK\$'000	2005 HK\$'000
Non-Current				
Bank loan – secured	Hong Kong dollars prime rate – 2.6	2008-2019	11,101	11,731

	Effective interest rate (%)	Maturity	Group	
			2006 HK\$'000	2005 HK\$'000
Analysed into:				
Bank loan:				
Within one year			638	607
In the second year			924	902
In the third to fifth years, inclusive			2,772	2,706
Beyond five years			7,405	8,123
			11,739	12,338

The Group's bank loan is secured by mortgages over the Group's office building situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$31,807,784 (2005: HK\$33,583,000).

The carrying amounts of the Group's current borrowing approximate to their fair value, The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank loan – secured	11,101	11,731	11,101	11,731

The fair value of the bank loan has been calculated by discounting the expected future cash flows at prevailing interest rates.

26. DEFERRED TAX

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

Deferred tax liabilities

Group

	2006 Revaluation of leasehold land and buildings HK\$'000
Gross deferred tax liabilities at 1 January 2006 and at 31 December 2006	<u>6,363</u>
	2005 Revaluation of leasehold land and buildings HK\$'000
Gross deferred tax liabilities at 1 January 2005 and at 31 December 2005	<u>6,363</u>

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. SHARE CAPITAL

Shares

	2006 HK\$'000	2005 HK\$'000
Authorised:		
2,000,000,000 (2005: 2,000,000,000) ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
260,114,000 (2005: 260,114,000) ordinary shares of HK\$0.10 each	26,011	26,011

There was no movement in share capital during the year.

A summary of the transactions in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2005	243,666,000	24,367	19,541	43,908
Issue of shares	20,000,000	2,000	98,000	100,000
Repurchase of shares	(5,952,000)	(596)	(23,623)	(24,219)
Share options exercised	2,400,000	240	10,980	11,220
	16,448,000	1,644	85,357	87,001
Share issue expenses	–	–	(2,552)	(2,552)
At 1 January 2006 and 31 December 2006	260,114,000	26,011	102,346	128,357

Details of the Company's share option scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

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

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

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

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

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

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

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28. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options						Date of grant of share options *	Exercise period of share Options	Price of the Company's shares ***				
	At beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	At end of year			Exercise price of share options ** HK\$ per share	At grant date of options HK\$ per share	Immediately before the exercise date HK\$ per share	At exercise date of options HK\$ per share	
Directors													
Donald H. Straszheim	800,000	-	-	-	-	800,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	-	-	
Yau Chun Hong	200,000	-	-	-	-	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45	-	-	
Chang Chu Fai, J. Francis	200,000	-	-	-	-	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35	-	-	
Other													
Members of senior management and other employees of the Group	2,400,000	-	-	-	(2,400,000)	-	24/2/2005	25/2/2005 to 24/2/2015	5.76	5.70	-	-	
	100,000	-	-	-	-	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	-	-	
	3,600,000	-	-	-	(3,600,000)	-	15/10/2004	16/10/2004 to 15/10/2014	4.68	4.55	-	-	
	-	1,500,000	-	-	-	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675	-	-	
	-	15,800,000	-	-	-	15,800,000	15/11/2006	16/11/2006 to 15/11/2016	1.16	1.16	-	-	
	6,100,000	17,300,000	-	-	-	17,400,000							
In aggregate	7,300,000	-	-	-	-	7,300,000							
	-	17,300,000	-	-	-	17,300,000							
	-	-	-	-	(6,000,000)	(6,000,000)							
	7,300,000	17,300,000	-	-	(6,000,000)	18,600,000							

28. SHARE OPTION SCHEME *(Continued)*

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

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year was HK\$6,520,020, of which the Group recognised a share option expense of HK\$6,520,020 during the year end 31 December 2006.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

	Granted on 2 January 2006	Granted on 17 November 2006
Dividend yield (%)	6.3	-
Expected volatility (%)	63.22	80.14
Historical volatility (%)	63.22	80.14
Risk free interest rate (%)	3.9-4.11	3.72
Expected life of option (year)	2-5	1
Exercise price (HK\$)	3.6	1.104
Share price at grant date (HK\$)	3.73	1.15

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

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

At the balance sheet date, the Company had 18,600,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,600,000 additional ordinary shares of the Company and additional share capital of HK\$1,860,000 and share premium of HK\$28,272,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 18,600,000 share options outstanding under the Scheme, which represented approximately 7% of the Company's shares in issue as at that date.

29. RESERVES

(a) Group

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

(b) Company

	Share premium account (Note (a)) HK\$'000	Contributed surplus (Notes (a)&(b)) HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	19,541	45,144	–	(42,051)	22,634
Issue of shares	98,000	–	–	–	98,000
Repurchase of shares	(23,623)	–	–	–	(23,623)
Share options exercised	10,980	–	–	–	10,980
Share issue expenses	(2,552)	–	–	–	(2,552)
Equity-settled share option arrangements	–	–	4,340	–	4,340
Profit for the year	–	–	–	51,443	51,443
Interim 2005 dividend	–	–	–	(25,612)	(25,612)
Proposed final 2005 dividend	–	–	–	(14,306)	(14,306)
At 1 January 2006	102,346	45,144	4,340	(30,526)	121,304
Equity-settled share option arrangements	–	–	6,520	–	6,520
Proposed final 2006 dividend	–	–	–	(5,848)	(5,848)
Profit for the year	–	–	–	11,164	11,164
At 31 December 2006	102,346	45,144	10,860	(25,210)	133,140

29. RESERVES *(Continued)***(b) Company** *(Continued)*

Notes:

- (a) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.
- (b) The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation on 15 December 2001 over the nominal value of the Company's shares issued in exchange therefor.

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

30. OPERATING LEASE ARRANGEMENTS**As lessee**

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

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	18,823	17,385
In the second to fifth years, inclusive	17,406	30,331
After five years	819	4,049
	37,048	51,765

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

During the current year, the Group paid HK\$113,731,936 (2005: HK\$29,015,000) to acquire property, plant and equipment.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group	
	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for:		
The construction of land and buildings	26,160	1,327
The purchase of plant and machinery	8,000	865
	34,160	2,192

33. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

34. RELATED PARTY TRANSACTIONS

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Associate:		
Sale of products	5,500	5,681

The sale to the associate was made according to the published prices and conditions offered to the major customers of the Group.

34. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) Outstanding balance with an associate:

Details of the Group's loans to its associate and trade balance with its associate as at the balance sheet date is included in note 19 and note 22 to the financial statements.

- (c) Compensation of key management personnel of the Group

	Group	
	2006 HK\$'000	2005 HK\$'000
Salary, allowances and benefits in kind	7,519	1,079
Discretionary bonuses	1,077	654
Employee share option benefits	1,012	–
Pension scheme contributions	26	26
Total compensation paid to key management personnel	9,634	1,759

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

35. POST BALANCE SHEET EVENT

On 13 October 2006, the Group has contracted to acquire 71% equity interests at a consideration of HK\$28,400,000 in Signature Industries Limited, an independent company incorporated in the British Virgin Island from Assetbest Limited, a company incorporated in the British Virgin Island, which is wholly-owned by Mr. Huang Wei Jie, and independent third party. Signature Industries Limited is an investment holding company and owns 100% equity interests in Dongguan Signature Furniture Co., Ltd and Signature Industries (Guangzhou) Co., Ltd, which are companies established in the PRC and are principally engaged in the design, manufacturing and distribution sofa products in the PRC. On 6 January 2007, the acquisition was completed by the issue of 32,272,000 new shares (11% of the enlarged issued share capital) of the Company at HK\$0.88 per share (closing market price of the Company's shares on 13 October 2006) to Assetbest Limited.

Notes to Financial Statements

31 December 2006

35. POST BALANCE SHEET EVENT *(Continued)*

The fair values of the identifiable assets and liabilities of Signature Industries Limited as at the date of acquisition and the corresponding carrying amounts immediately before acquisition were as follows:

	Fair value recognised on acquisition	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	11,247	11,247
Cash and bank balances	992	992
Trade receivables	8,741	8,741
Prepayments, deposit and other receivables	7,881	7,881
Inventories	7,834	7,834
Trade payables	(6,320)	(6,320)
Accrual and other payables	(18,213)	(18,213)
Shareholders' loan	(3,422)	(3,422)
Minority interests	(2,535)	(2,535)
	<u>6,205</u>	<u>6,205</u>
Goodwill on acquisition	<u>22,194</u>	<u>22,194</u>
Satisfied by issue of new shares	<u>28,399</u>	<u>28,399</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Signature Industries Limited is as follows:

	HK\$'000
Cash and bank balances acquired	<u>992</u>
Net inflow of cash and cash equivalents in respect of the acquisition of Signature Industries Limited	<u>992</u>

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise a bank loan and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

Foreign exchange risk

The Group's investments in China are mainly through its subsidiaries and associate, which conduct business within the PRC. Apart from an interest payable, the repayment of a loan obtained to finance the acquisition of office in Hong Kong and any potential future dividend of its subsidiaries and associate may declare to its shareholders, its major turnover, capital investment and expenses are denominated in Renminbi. The Group had not experienced any difficulties in obtaining government approval for its necessary foreign exchange purchases. During the year, the Group did not issue any financial instruments for hedging purpose.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2007.