Beijing 2008

Official Home Furniture
Exclusive Supplier of the
Beijing 2008 Olympics

Royal FURNITURE
皇朝傢俬

2006
2005
2004
2003

2007 Annual Report

2002
2001
2000

ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)
(formerly known as Chitaly Holdings Limited)

(Stock code: 1198)

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*
Mr. Lam Toi

Independent Non-Executive Directors

Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong

AUDIT COMMITTEE

Mr. Yau Chung Hong *(Chairman)*
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis

REMUNERATION COMMITTEE

Mr. Chang Chu Fai J. Francis *(Chairman)*
Dr. Donald H. Straszheim
Mr. Yau Chung Hong

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chan Wing Kit, CPA

AUDITORS

Ernst & Young

SOLICITORS

DLA Piper Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

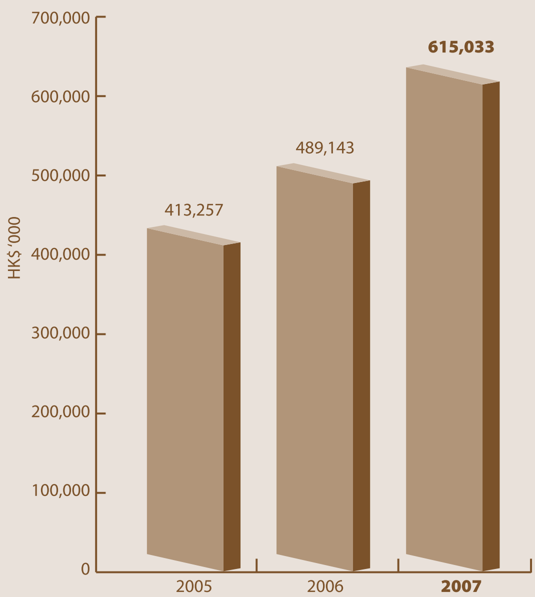
Room 204, 2/F
Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

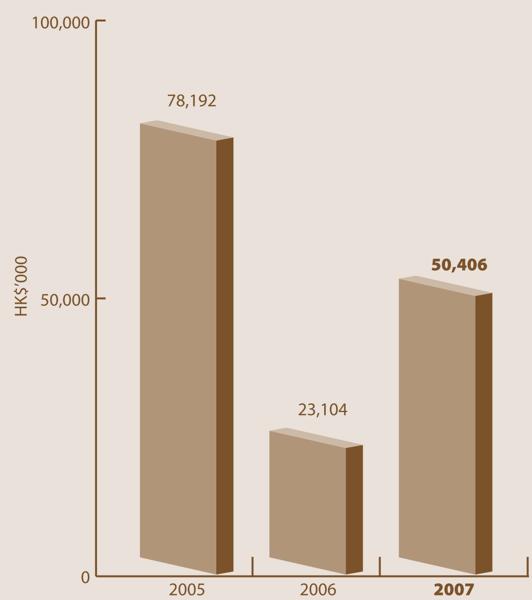
1198

Financial Highlights

Turnover



Net Profit Attributable to Shareholders



Net Profit Margin

Chairman's Statement

Dear Shareholders,

2007 was a fruitful year for Royale Furniture Holdings Limited ("Royale Furniture" or the "Company") and its subsidiaries (collectively the "Group"). The Group benefited from a rebound of the furniture market and proved its capability in tackling rising material prices and maintaining leadership in the highly competitive market. Turnover for the year increased by 25.7% to HK$615 million. Profit attributable to equity holders increased by HK$27.3 million to HK$50.4 million, mainly attributable to the success of our efforts in brand building, improving production quality and cost effectiveness, creating original designs and expanding our network.

Last year, the Chinese economy continued to thrive despite the introduction of macroeconomic control measures by the government to curb overheated market sectors. As for the global economy, it was troubled by the ripples of the sub-prime mortgage crisis in the US, though it was not a main concern for us as most of our revenue came from the PRC market. These conditions presented us with both challenges and opportunities. What we did in 2007 was to consolidate our strengths for overcoming challenges and seizing opportunities. The measures we employed such as brand enhancement and expansion strategy in sales network in the PRC had allowed us to respond effectively to the continuously changing furniture market and global economy.

Our appointment by The Beijing Organizing Committee for the Games of the XXIX Olympiad ("BOCOG") as the Official Home Furniture Exclusive Supplier for the 2008 Beijing Olympics is a milestone in the Group's development. The Olympic project has not only earned for us probably the biggest ever furniture order in the history of the PRC furniture industry, but is also the best proof of our ability to produce high quality and environmentally friendly furniture. The appointment has markedly enhanced the standing and customer recognition of our brand.

We are also committed to increasing our revenue source. Apart from recruiting more franchisees, we added over 30 new self-operating shops during the year to strengthen our sales network. We also expanded our business through acquisition of companies that could bring synergies to the Group. For example, the acquisition of a mattress manufacturer and a sofa manufacturer have enriched our product mix and brought in steady revenues to the Group.

As a well-known leading furniture retailer in the PRC, we are capable of responding quickly to changes in the market and consumers' tastes. We will continue to expand the sales network in the franchise and self-operating shops segments and expect our store number to continue to grow in 2008. We will also maintain our brand-building efforts at the same time.

APPRECIATION

I would like to take this opportunity to express my sincere thanks to our franchisees, business associates, customers, fellow shareholders and institutional shareholders for their continued support and confidence in the Group. I would also like to thank our committed management team and staff for their contribution in the past year.

Tse Kam Pang
Chairman

Hong Kong, 25 April 2008

DIVIDEND

The board of director of the Company (the "Board") recommends a payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2007. Together with the interim dividend of HK1.2 cents per share, the total dividend for the year ended 31 December 2007 is HK3.7 cents per share. Subject to the approval of the shareholders at the forthcoming Annual General Meeting ("AGM"), the final dividend will be distributed on or about 12 June 2008 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 June 2008.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 29 May 2008 to 4 June 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend and attending the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Registrar and Registration Office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on 28 May 2008.

FINANCIAL REVIEW

During the year under review, the Group's turnover increased by 25.7% to HK$615 million while the gross profit margin improved from 26.1% to 27.3%. It was mainly attributable to strict cost control imposed in different functions of the Group, stronger product brand name, positive corporate image and further expansion of the "Royal Furniture" self-operating and franchise outlets. The gross margin of sales to the Group's franchisees rose from 21.1% to 22.6%, while the gross margin of the self-operating shops business increased by 1.1 percentage point to 52.8%. As a result of the increase in turnover and improvement in gross profit margin, profit attributable to equity holders surged by 118.2% to HK$50.4 million during the year.

BUSINESS REVIEW

Olympic Project

The appointment in March 2007 as the Official Home Furniture Exclusive Supplier for the 2008 Beijing Olympics is one of the most significant achievements the Group made during the year. The Group will be supplying all the home furniture, over 100,000 pieces, including beds, wardrobes, tables and chairs, etc., for the Olympic Village (for athletes, disabled athletes and the media) in Beijing. Also, the Group was invited to design and manufacture the seats for dignitaries from different countries in the "Bird's Nest" (the main Olympic Stadium) and the VIP rooms in "Long Wang Miao" (龍王廟). As the only Hong Kong-listed company in the Olympic suppliers list, the Group is proud to be contributing to the global sports event by providing participants with healthy, environmentally-friendly and quality products.

Being associated with the Olympic Games has not only enhanced the "Royal Furniture" brand, but also the Company's bargaining power in securing strategic locations for expanding its franchise operation and self-operating shops business overall. Apart from promoting its products using the printed media, billboards and on television, the Group also invited famed Chinese Olympic medalists to its promotional functions in major cities such as Shanghai, Shengyang, Harbin, Changsha and Zhengzhou.

New Product Series

In August 2007, the Group launched a new furniture series - the "Olympic Home". All furniture in the series are designed and manufactured according to Olympic standards, which require strict compliance with health and environmental standards. After the launch, the series quickly earned the support of consumers, evidencing the Group's ability to ensure profitability of its business without compromising consumers' need for quality and affordable furniture. At a price level very similar to its existing products, Olympic Home items have higher profit margins thanks to the more efficient usage of raw materials. In the coming year, the Group will focus on marketing the Olympic Home series which has strong support from franchisees.

Change of Company Name

In December 2007, the Company changed its name to "Royale Furniture Holdings Limited". The Board believed the new name would better bring to the fore ground the association of the Group's brand "Royal Furniture" with the Olympic logo and its emphasis on providing healthy, environmentally-friendly and quality products. These attributes will enhance the Company's bargaining power in securing strategic locations for expanding its self-operating shops and franchise networks.

Successful Self-Operating Shops

In 2007, for the first year after it was set up in 2005, the self-operating shops distribution network recorded operating profit. This achievement bore witness to the success of the business model operated by the Group and the strong abilities of operation personnel. Turnover from self-operating shops business increased to HK$ 96.5 million, representing a growth of 21.1% against last year. The business made a profit of HK$8.4 million against a loss of HK$1.4 million last year. Between the end of May and December 2007, the Group expanded its self-operating shops business through purchasing franchise right back from franchisees in Hangzhou and Zhengzhou. Currently, the Group has self-operating shops in major cities namely Beijing, Shanghai, Shenzhen, Hangzhou and Zhengzhou.

Expansion Through Acquisitions

During the year, the Group acquired an additional 19% stake in Grandeur Industries Limited ("Grandeur") which produces mattresses. The acquisition made Grandeur an associated company of the Group. Apart from supplying mattresses to the Group, Grandeur also has its own franchise network selling its own brand products. The acquisition has brought synergistic benefit to the Group as consumers in most cases would buy a mattress and bed frame together.

The Group completed the acquisition of Signature Industry Limited ("Signature"), which manufactures sofas, in January 2007 and its share of profit from Signature was booked for 2007. With independent design and manufacturing capabilities, this new member of the Group is expected to bring steady contribution to the results of the Group.

Network Expansion

As at end of 2007, the Group had over 1,300 franchise outlets (2006: 1,050 outlets) spanning across the PRC. For the self-operating shops segment, the Group had over 100 self-operating shops (2006: 69 shops) as at the year end. To ensure the healthy and quality expansion of the sales network, the Group will further strengthen the leading position of "Royal Furniture", its household brand name in the home furniture market in the PRC, and launch new and trendy product series that meet the market demand.

PROSPECTS

Going ahead, armed with the title of the "Official Home Furniture Exclusive Supplier for the Beijing 2008 Olympics", as well as a reputable product brand name and a solid foundation, the Group is confident of overcoming potential challenges in front of it and grasping more business opportunities.

The Olympic Supplier status will fortify the Group's leadership as a furniture supplier in consumers' heart. Thus, plus its continual marketing efforts in the PRC and Hong Kong have greatly enhanced consumers' awareness of and confidence in the "Royal Furniture" as a brand representing quality, the Group believes "Royal Furniture" will be among the first choices of consumers when they need to buy furniture and a welcomed addition to many home furniture malls in the PRC.

In August 2007, the Group introduced a new medium-end product series named "Olympic Home" which is well-received in the market. Heeding the positive comments from its franchisees, the Group will focus on marketing the series in 2008. The Group will also continue to expand its sales network. The Group expects the number of the franchise outlets to continue to grow in 2008, while more self-operating shops will also be added when the right opportunities arise.

The Company has been listed for over five years now. In the past five years, while the PRC furniture market has become more competitive, the Company has also become stronger carrying a more prominent brand name through acquisition of a sofa factory and a mattress factory, growing and strengthening its sales network, landing the Olympic project and restructuring to enhance internal operation. The management is determined to stay focus and work hard on integrating the strengths and capabilities of the Company to achieve the highest yields for its shareholders.

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year.

A. THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Directors should make decisions objectively in the interests of the Company.

While day-to-day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management, the Independent Non-Executive Directors are responsible for:

(a) participating in board meetings of the Company to bring an independent judgement to bear on issue of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interest arise;

(c) serving on the audit, remuneration and other governance committees, if invited; and

(d) scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

The Board provides leadership, approves major policies, reviews and monitors the business performance of the Group, approves major funding and investment proposals, as well as the financial statements of the Group. Day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management.

Chairman and Chief Executive Officer

The roles of Chairman of the Board and Chief Executive Officer of the Company are segregated. The Chairman of the Board is Mr. Tse Kam Pang, an Executive Director, who is responsible for leadership and effective running of the Board. The Chief Executive Officer of the Company is Mr. Ma Gary Ming Fai, an Executive Director, who is responsible for day-to-day management, administration and operation of the Company.

Board Composition

During 2007, the Board comprised six directors as below.

Executive Directors:

Mr. Tse Kam Pang (Chairman)
Mr. Ma Gary Ming Fai (Chief Executive Officer)
Mr. Lam Toi

Independent non-executive Directors:

Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong

The biographical details of directors of the Company (the "Director") and other senior management are disclosed in the section headed "Management Profile" on Pages 16 to 17 in this Annual Report.

Board meeting and procedure

Regular Board meetings are held at least four times a year. It is also held as and when necessary to discuss significant transactions, including issuance of securities, material acquisitions, and connected transactions, if any. Other than regular Board meetings, Directors also meet periodically to discuss matters of particular interest. There were four Board meetings held and the details of the Directors' individual attendance record in the year are as follows:

Directors Attendance

Name	Number of Board meetings held during the Director's term of office in 2007	Number of meetings attended
Mr. Tse Kam Pang *(Chairman)*	4	4
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*	4	4
Mr. Lam Toi	4	4
Dr. Donald H. Straszheim	4	4
Mr Chang Chu Fai J. Francis	4	4
Mr. Yau Chung Hong	4	4

Board members are provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with Code provision A1.3 of the CG Code, at least 14 days notice have been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meeting are sent to all Directors within reasonable time prior to the meetings. None of the members of the Board has any relationship (including financial, business, family or other material or relevant relationships) between each other. Directors are free to contribute alternative views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Full minutes are prepared after the meetings and will be endorsed in the subsequent Board meeting.

All non-executive Directors (including independent non-executive Directors) of the Company have been appointed for a term of three years after the AGM taken place on 26 May, 2006. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

Model Code For Securities Transaction By Directors

The Company has adopted for compliance by the directors and relevant employees the code of conduct for dealings in securities of the Company as set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), of the Listing Rules. The Company, having made specific enquiry, confirms that members of the Board complied throughout the year with the Model Code. Senior managers who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

B. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. All committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of three independent non-executive Directors namely Mr. Yau Chung Hong, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr Chang Chu Fai J. Francis. The Audit Committee meets regularly, normally two times a year, with the senior financial management and meets with external auditor once a year for final result reviews.

The main duties of the Audit Committee include the following:

1. To monitor the integrity of the annual and interim reports as well as to review significant financial reporting judgments before submission to the Board and to report to the Board.

2. To review the relationship with the external auditor.

3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

There were two meetings of the Audit Committee held during 2007. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	Number of Audit Committee meetings in 2007	Number of meetings attended
Dr. Donald H. Straszheim	2	2
Mr Chang Chu Fai J. Francis	2	2
Mr. Yau Chung Hong	2	2

During 2007, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2006 and the interim results for the six months ended 30 June 2007 before they were submitted to the Board for approval. The Audit Committee met with the external auditors to discuss the results of their audit for the year ended 31 December 2006. The Committee approved the auditor's remuneration and carried out assessment of their independence. During 2007, there was no disagreement between the Board and Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code on 27 August 2005. The Remuneration Committee is chaired by Mr. Chang Chu Fai J. Francis, and comprising two other members, namely Dr. Donald H.Straszheim and Mr. Yau Chung Hong. All the members of the Remuneration Committee are independent non-executive Directors of the Company. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are independent non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices and ensure no Director involved in deciding his own remuneration. No meeting of the Remuneration Committee was held in 2007 as no matter is required to be tabled for discussion.

Details of the remuneration of each Director for 2007 is set out in the Note 8 to this Annual Report.

Nomination Committee

The Company does not have a nomination committee, and the power to nominate or appoint additional Directors is vested on the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a Director of the Company in accordance with the articles of association of the Company and the laws of Hong Kong and the Cayman Islands.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically will follow the provisions of the articles of association of the Company which empowers the Board from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position. There were no changes in directorship during 2007.

All newly appointed Director will be provided an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Group and of the responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

C. ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts ended 31 December 2007, have applied them consistently with previous financial periods. The statement of our Auditors about their responsibility on the accounts is included in the Independent Auditors' Report. In support of the above, the accounts presented to the Board have been reviewed by the Executive Directors. For the annual reports and accounts, the Company's financial department is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 28 and 29 of this Annual Report.

External Auditors' Remuneration

The Company engages Ernst & Young as its external auditor. An analysis of remuneration in respect of audit is included in the Notes to the Accounts in this Annual Report. No non-audit services has been provided by the external auditors during the year under review.

Internal Controls

The internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The internal control framework also provides for identification and management of risk.

The internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2007 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

D. COMMUNICATION WITH SHAREHOLDERS

The AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The Chairman of the Board and the Audit Committee were present at the 2007 AGM. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained at each general meeting. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting. Results on any voting conducted by poll will be published in an announcement to be issued on the business day following the general meeting. Registered shareholders are notified by post of the AGM. Any registered shareholder is entitled to attend and vote at the AGM, provided that his/ her/ its shares have been fully paid up and recorded in the register of the members of the Company. Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

E. INVESTOR RELATIONS

The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. In the year under review, the Directors and senior management of the Company participated in numerous road shows covering America, UK and Asia (China and Singapore). The Company also communicates with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail: info@chitaly.com.hk
Telephone number: (852) 2636-6648
By post: Room 204, 2/F Wing On Plaza
62 Mody Road
Tsim Sha Tsui, Kowloon
Hong Kong
Attention: Public Relationship

DIRECTORS

Executive Directors

Mr. TSE Kam Pang, aged 53, is the chairman of the Company. He founded the Group in 1997 and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Prior to the founding of the Group, Mr. Tse previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. Mr. Tse has over 18 years of experience in the international trade and China trade business. Mr. Tse is also a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. MA Gary Ming Fai, aged 44, is the Chief Executive Officer of the Company. He is the founder or early investor in a number of technology projects both in the PRC and Hong Kong, a member of the Institute of Chartered Accountants of Ontario in Canada and has worked for several years with an international accounting firm. Mr. Ma received his bachelor of commerce degree from the University of Calgary, Canada in 1985. Mr. Ma is presently the Executive President of Guangdong Furniture Chamber of Commerce and a committee member of International Furniture Association. Mr. Ma joined the Group in 2002.

Mr. LAM Toi, aged 45, is the co-founder of the Group. Mr. Lam is mainly responsible for product research and development of the Group. Before founding the Group in 1997, Mr. Lam has over 20 years of experience in China trade and furniture business. Mr. Lam is presently the vice-chairman of the Guangzhou Furniture Association, executive director of the China Furniture Association and the permanent president of Hong Kong Furniture and Decoration Trade Association Limited.

Independent non-executive Directors

Dr. Donald H. Straszheim, aged 66, is Vice Chairman of Roth Capital Partners in Los Angeles, a boutique investment banking and securities firm focused on micro-cap stocks in both the United States and China. He holds a B.S., M.S. and Ph.D. from Purdue University. From 1985 to 1997, Dr. Straszheim was the Chief Economist of Merrill Lynch and Co. ("Merrill Lynch"), and guided its world-wide economic research effort. Located in New York, he was Merrill Lynch's chief economic spokesman, and the architect of its global economic viewpoint. He was voted ten consecutive years to Institutional Investor's All-Star Team (equity or fixed income). Dr. Straszheim joined the Group in 2004.

Mr. Chang Chu Fai J. Francis, aged 53, is a registered person under the Securities and Futures Ordinance ("SFO"). Since 2000, Mr. Chang has been the managing director of Ceres Capital Limited, a licensed corporation under the SFO engaged in the provision of corporate finance advisory services. Mr. Chang has over 30 years of experience in banking, corporate finance, investment and management. He holds a Bachelor's Degree in Commerce from Concordia University in Montreal, Canada since 1976 and a Master's Degree in Business Administration from York University in Toronto, Canada since 1977. Currently, he is the deputy chairman and an independent non-executive director of Quality HealthCare Asia Limited; and an independent non-executive director of Tian An China Investments Company Limited and APAC Resources Limited, all are companies listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was an executive director of Golden 21 Investment Holdings Limited (now known as China Financial Leasing Group Limited) from May 2002 to April 2007 and Trasy Gold Ex Limited from January 2006 to November 2007, both are companies listed on the Stock Exchange. Mr. Chang joined the Group in 2005.

Mr. Yau Chung Hong, age 38 is an Executive Director of Sino Katalytics Investment Corporation (stock code 2324) and an Independent Non-Executive Director of Daqing Petroleum and Chemical Group Limited (stock code 362). Mr. Yau obtained a bachelor degree in Accountancy from the Hong Kong Polytechnic University in 1993. He is an associated member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Yau has extensive experience and knowledge in accounting and financial management. He joined the Group in 2005.

SENIOR MANAGEMENT

Mr. CHAN Wing Kit, aged 36, is the Chief Financial Controller of the Group, qualified accountant and Company Secretary of the Company. He is responsible for the Group's financial management and company secretarial matters. He holds a bachelor of commerce degree from Monash University. Prior to joining the Group in October 2001, he worked as an auditor with an international accounting firm and has several years of experience in auditing, accounting and financial work. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia.

Mr. ZENG Le Jin, aged 36, is the manager of the internal audit department of the Group. He joined the Group in 1999. He is responsible for the internal audit and overall system assurance of the Group. He has over 10 years of experience in enterprise management. He holds a bachelor degree of metropolitan economy and management majoring in statistic from Guangdong Business College.

Mr. WU Yuan Cheng, aged 34, is the manager of the general administration department and joined the Group in 1999. He is responsible for general administration, personnel affair and backup services. He graduated from Southwest Agricultural University majoring in accounting and auditing. He has several years of experience in corporate administration.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2007 to the shareholder of the Company.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 106.

Interim dividend of HK1.2 cents per share was declared and paid during the year. The directors recommend the payment of a final dividend of HK2.5 cents per ordinary share (note 12) in respect of the year, to shareholders on the register of members on 4 June 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is set out in note 4 to the financial statements.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined financial results and of consolidated/combined assets and liabilities of the Group for the last five years, prepared on the basis set out in the note below:

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**615,033**	489,143	413,257	403,766	300,719
PROFIT BEFORE TAX	**54,403**	23,411	80,446	131,857	88,998
Tax	**(2,091)**	(307)	(2,254)	(23,855)	(11,754)
PROFIT FOR THE YEAR	**52,312**	23,104	78,192	108,002	77,244
Attributable to:					
Equity holders of the parent	**50,406**	23,104	78,192	108,002	77,244
Minority interests	**1,906**	—	—	—	—
	52,312	23,104	78,192	108,002	77,244
ASSETS AND LIABILITIES					
Non-current assets	**518,784**	344,021	247,809	184,013	134,167
Current assets	**329,476**	252,885	297,007	245,285	142,422
Current liabilities	**(292,222)**	(204,878)	(178,756)	(177,188)	(105,352)
Non-current liabilities	**(17,767)**	(17,464)	(18,094)	(18,634)	(6,363)
	538,271	374,564	347,966	233,476	164,874

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in note 29 and 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$494.9 million of which HK$7.8 million has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$177.6 million may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions of approximately HK$1,500,000. (2006: HK$Nil).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 8.5% of the total sales for the year and sales to the largest customer included therein amounted to 2.5% . Purchases from the Group's five largest suppliers accounted for approximately 32.9% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 12.0%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive directors:
Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Ming Fai, Gary *(Chief Executive Officer)*
Mr. Lam Toi

Independent non-executive directors:
Mr. Donald H. Straszheim
Mr. Yau Chung Hong
Mr. Chang Chu Fai J. Francis

In accordance with article 87 of the Company's articles of association, one-third of the Directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

Details of the Directors to be retired and offered for re-election at the forthcoming AGM are contained in the circular to be despatched to the shareholders of the Company.

The Company has received annual confirmations of independence from Mr. Donald H. Straszheim, Mr. Yau Chung Hong and Mr. Chang Chu Fai Francis, and as at the date of this Annual Report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 16 & 17 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tse Kam Pang and Mr. Lam Toi have entered into service agreements with the Company for an initial term of two years commencing from 1 May 2002, respectively, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other. Mr. Ma Ming Fai, Gary has entered into a service agrement with the Company for a term of two years commencing from 21 January 2005, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other.

All independent non-executive Directors have also entered into a letter of appointment with the Company for a term of three years commencing from 26 May 2006.

All Directors are subject to retirement and re-election at the AGM in accordance with the rotation requirements under the articles of association of the Company.

Apart from the foregoing, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

INTERESTS OF DIRECTORS IN CONTRACTS

During the year ended 31 December 2007, none of the Directors had a material interest in any contract of significance to which the Company or any of its affiliates was a party.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

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

As at 31 December 2007, the interests and short positions of the Directors and chief executive in the shares (the "Shares") and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in shares and underlying shares of the Company:

		Number of Shares held, capacity and nature of interest			
Name of director	Notes	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Kam Pang	(a)	5,152,000	71,450,000	76,602,000	24.62
Mr. Ma Ming Fai, Gary	(b), (c)	4,684,000	1,798,000	6,482,000	2.08
Dr. Donald H. Straszheim	(c)	1,600,000	—	1,600,000	0.51
Mr. Chang Chu Fai J. Francis	(c)	600,000	—	600,000	0.19
Mr. Yau Chung Hong	(c), (d)	200,000	980,000	1,080,000	0.35

The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

Notes:

(a) The 71,450,000 Shares are held by Crisana International Inc. ("Crisana"), a company incorporated in the British Virgin Islands. As at 31 December 2007, Mr. Tse Kam Pang held 100% of the issued share capital of Crisana.

(b) The 1,798,000 Shares are held by Upwise Investments Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Upwise Investments Limited is owned by Mr. Ma Ming Fai, Gary.

(c) These represent Shares to be issued upon exercise of the share option granted to them, details of which are set out in the section headed "Share Option Scheme" in this Annual Report.

(d) The 980,000 Shares are held by CNI Assets Management Ltd., a company wholly owned by Mr. Yau Chung Hong.

No Directors have any non-beneficial personal equity interests in subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2007, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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, 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 and communicated to each grantee. The Board 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 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 Shares under the Scheme will be a price determined by the Board 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.

As at 31 December 2007, the number of Shares issuable under share options granted under the Scheme was 19,200,000, which represented 6% of the Company's shares in issue as at that date. The maximum number of Shares issuable under share options which may be granted to each eligible participant in the Scheme within any 12-month period up to the date of latest grant, is limited to 1% of the Shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

The share options granted under the Scheme for a consideration of HK$1.00 per grant during the year are set out below:

	Number of share options									Price of the Shares ***		
Name or category of participant	At the beginning of the year	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	At the end of the year	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercises 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	–	–
		800,000	–	–	–	800,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33		
Yau Chung Hong	200,000	–	–	–	–	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45	–	–
		400,000	(400,000)	–	–	–	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33	1.76	1.77
Chang Chu Fai, Johnson Francis	200,000	–	–	–	–	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35	–	–
		400,000	–	–	–	400,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33		
Ma Gary Ming Fai	–	2,900,000	–	–	–	2,900,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33		
Others												
Members of senior management and other employees of the Group	–	4,300,000	–	–	–	4,300,000	9/7/2007	10/7/2007 to 9/7/2017	1.516	1.48	–	–
	100,000	–	–	–	–	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	–	–
	1,500,000	–	–	–	–	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675	–	–
	15,800,000	–	(7,800,000)	–	–	8,000,000	15/11/2006	16/11/2006 to 15/11/2016	1.104	1.08	2.10	1.82
	17,400,000	4,300,000	(7,800,000)	–	–	13,900,000						
In aggregate	18,600,000	–	–	–	–	18,600,000						
	–	8,800,000	–	–	–	8,800,000						
	–	–	(8,200,000)	–	–	(8,200,000)						
	18,600,000	8,800,000	(8,200,000)	–	–	19,200,000						

* 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 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 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Crisana	(a)	Directly beneficially owned	71,450,000	22.96%
Fidelity International Limited		Directly beneficially owned	17,720,692	5.69%
Assetbest Limited	(b)	Directly beneficially owned	32,272,000	10.37%
Templeton Investment Counsel, LLC		Directly beneficially owned	17,788,000	5.72%

Notes:

(a) Crisana is wholly owned by Mr. Tse Kam Pang, a director.

(b) Assetbest Limited is wholly owned by Mr. Huang Wai Jei who is deemed to be interested in the 32,272,000 Shares..

Save as disclosed above, as at 31 December 2007, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interest of short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2007 was 3,300 (2006: 3,000). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus share option to be granted to eligible employees and persons of the Group. At 31 December 2007, there were outstanding share options of approximately 19.2 million.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 15.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company. The financial statements of the Group and of the Company for the year ended 31 December 2007 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Tse Kam Pang
Chairman and Executive Director

Hong Kong
25 April 2008

Independent Auditors' Report

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓

To the shareholders of Royale Furniture Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Royale Furniture Holdings Limited set out on pages 30 to 106, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

25 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**615,033**	489,143
Cost of sales		**(446,837)**	(361,605)
Gross profit		**168,196**	127,538
Other income and gains	5	**54,569**	42,145
Selling and distribution costs		**(97,850)**	(83,040)
Administrative expenses		**(63,244)**	(59,089)
Other expenses		**(6,927)**	(3,690)
Finance costs	7	**(1,861)**	(508)
Share of profits of associates		**1,520**	55
PROFIT BEFORE TAX	6	**54,403**	23,411
Tax	10	**(2,091)**	(307)
PROFIT FOR THE YEAR		**52,312**	23,104
Attributable to:			
Equity holders of the parent	11	**50,406**	23,104
Minority interests		**1,906**	–
		52,312	23,104
DIVIDENDS	12		
Interim		**3,509**	–
Proposed final		**7,779**	5,848
		11,288	5,848
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK17.04 cents**	HK8.88 cents
Diluted		**HK16.75 cents**	HK8.85 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**355,670**	283,098
Prepaid land lease payments	15	**14,630**	19,224
Goodwill	17	**111,688**	21,454
Other intangible assets	16	**5,729**	6,124
Interests in associates	19	**31,067**	8,321
Available-for-sale investments	20	**–**	5,800
Total non-current assets		**518,784**	344,021
CURRENT ASSETS			
Inventories	21	**159,984**	120,639
Trade receivables	22	**23,371**	16,432
Prepayments, deposits and other receivables	23	**77,091**	53,152
Cash and cash equivalents	24	**51,447**	62,662
		311,893	252,885
Non-current assets classified as held for sale	25	**17,583**	–
Total current assets		**329,476**	252,885
CURRENT LIABILITIES			
Trade payables	26	**109,597**	83,140
Other payables and accruals		**90,469**	61,170
Interest-bearing bank loan	27	**30,902**	638
Tax payable		**61,254**	59,930
Total current liabilities		**292,222**	204,878
NET CURRENT ASSETS		**37,254**	48,007
TOTAL ASSETS LESS CURRENT LIABILITIES		**556,038**	392,028

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**556,038**	392,028
NON-CURRENT LIABILITIES			
Interest-bearing bank loan	27	**11,404**	11,101
Deferred tax liabilities	28	**6,363**	6,363
Total non-current liabilities		**17,767**	17,464
Net assets		**538,271**	374,564
Equity attributable to equity holders of the parent			
Issued capital	29	**31,117**	26,011
Reserves	31	**494,933**	342,705
Proposed final dividend	12	**7,779**	5,848
		533,829	374,564
Minority interests		**4,442**	–
Total equity		**538,271**	374,564

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Notes	Issued share capital HK$'000 (note 29)	Share premium account HK$'000 (note 29)	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority Interests HK$'000	Total Equity HK$'000
At 1 January 2006		26,011	102,346	4,340	20,150	7,314	173,499	14,306	347,966	–	347,966
Exchange realignment		–	–	–	–	11,280	–	–	11,280	–	11,280
Total income and expense for the year recognised directly in equity		–	–	–	–	11,280	–	–	11,280	–	11,280
Profit for the year		–	–	–	–	–	23,104	–	23,104	–	23,104
Total income and expense for the year		–	–	–	–	11,280	23,104	–	34,384	–	34,384
Final 2005 dividend declared		–	–	–	–	–	–	(14,306)	(14,306)	–	(14,306)
Equity-settled share option expense	30	–	–	6,520	–	–	–	–	6,520	–	6,520
Proposed final 2006 dividend	12	–	–	–	–	–	(5,848)	5,848	–	–	–
At 31 December 2006		26,011	102,346	10,860	20,150	18,594	190,755	5,848	374,564	–	374,564
At 1 January 2007		26,011	102,346	10,860	20,150	18,594	190,755	5,848	374,564	–	374,564
Exchange realignment		–	–	–	–	38,450	–	–	38,450	–	38,450
Total income and expense for the year recognised directly in equity		–	–	–	–	38,450	–	–	38,450	–	38,450
Profit for the year		–	–	–	–	–	50,406	–	50,406	1,906	52,312
Total income and expense for the year		–	–	–	–	38,450	50,406	–	88,856	1,906	90,762
Final 2006 dividend declared		–	–	–	–	–	–	(5,848)	(5,848)	–	(5,848)
Issue of shares	29	4,286	63,786	–	–	–	–	–	68,072	–	68,072
Share option exercised	29	820	11,455	(3,124)	–	–	–	–	9,151	–	9,151
Equity-settled share option expense	30	–	–	2,543	–	–	–	–	2,543	–	2,543
Acquisition of a subsidiary	32	–	–	–	–	–	–	–	–	2,536	2,536
Interim 2007 dividend declared		–	–	–	–	–	(3,509)	–	(3,509)	–	(3,509)
Proposed final 2007 dividend		–	–	–	–	–	(7,779)	7,779	–	–	–
At 31 December 2007		31,117	177,587*	10,279*	20,150*	57,044*	229,873*	7,779	533,829	4,442	538,271

* These reserve accounts comprise the consolidated reserves of HK$494,933,000 (2006: HK$342,705,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**54,403**	23,411
Adjustments for:			
Finance costs	7	**1,861**	508
Share of profits of associates		**(1,520)**	(55)
Interest income	5, 6	**(119)**	(440)
Loss on disposal of items of property, plant and equipment	6	**5,183**	1,265
Depreciation	6	**24,971**	26,458
Recognition of prepaid land lease payments	15	**427**	610
Amortisation of other intangible assets	16	**820**	809
Foreign exchange losses/(gains), net	6	**–**	14
Gain on disposal of equity investments at fair value through profit or loss	5, 6	**(1,290)**	(2,050)
Equity-settled share option expense	30	**2,543**	6,520
		87,279	57,050
Increase in inventories		**(26,527)**	(17,672)
Decrease in trade receivables		**1,196**	3,460
(Increase)/decrease in prepayments, deposits and other receivables		**(5,755)**	6,055
Decrease in trade payables		**28,322**	23,686
(Decrease)/increase in other payables and accruals		**(26,389)**	3,864
Cash generated from operations		**58,126**	76,443
Income taxes paid		**(767)**	(620)
Net cash inflow from operating activities		**57,359**	75,823

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		**57,359**	75,823
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**119**	440
Purchases of items of property, plant and equipment	14	**(94,950)**	(113,732)
Additions to prepaid land lease payments	15	**(770)**	–
Proceeds from disposal of items of property, plant and equipment		**334**	–
Acquisition of a subsidiary/businesses		**(18,034)**	–
Additions to other intangible assets	16	**(15)**	(5)
Disposal of a subsidiary		**(120)**	–
Acquisition of an associate		**–**	–
Acquisition of available-for-sale investments	20	**–**	(5,800)
Net proceeds from disposal of equity investments at fair value through profit or loss		**1,290**	2,050
Net cash outflow from investing activities		**(112,146)**	(117,047)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	29	**9,151**	–
New bank loan		**41,668**	–
Repayment of a bank loan		**(11,101)**	(599)
Interest paid		**(1,861)**	(508)
Dividends paid		**(9,357)**	(14,306)
Net cash inflow/(outflow) from financing activities		**28,500**	(15,413)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(26,287)**	(56,637)
Cash and cash equivalents at beginning of year		**62,662**	119,313
Effect of foreign exchange rate changes, net		**15,072**	(14)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**51,447**	62,662
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**51,447**	62,662

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**225,771**	166,287
Total non-current assets		**225,771**	166,287
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**9,199**	291
Cash and cash equivalents	24	**86**	219
Total current assets		**9,285**	510
CURRENT LIABILITIES			
Other payables and accruals		**200**	1,798
Total current liabilities		**200**	1,798
NET CURRENT ASSETS/(LIABILITIES)		**9,085**	(1,288)
Net assets		**234,856**	164,999
EQUITY			
Issued capital	29	**31,117**	26,011
Reserves	31	**195,960**	133,140
Proposed final dividend	12	**7,779**	5,848
Total equity		**234,856**	164,999

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

1. CORPORATE INFORMATION

Royale Furniture Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, 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 include all Hong Kong Financial Reporting standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

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. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
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*

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

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements - Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 38 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

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

(d) HK(IFRIC) – Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivatives, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC) – Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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 (Revised)	*Presentation of Financial Statements*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
Amendments to HKFRS 2	*Share-based Payment - Vesting Conditions and Cancellations*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HK(IFRIC)-Int 11	*Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 The Limit on a Defined Benefit Assets, Minimum Funding Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 January 2008

5 Effective for annual periods beginning on or after 1 July 2009

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

The revised HKAS 1 requires an entity to include a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy and makes a retrospective restatement or reclassification of items in its financial statements. The Group expects to adopt the revised HKAS 1 from 1 January 2009 and will need to consider whether to present the statement of comprehensive income as a single statement or as two statements.

HKFRS 3 and HKAS 27 will have a significant impact on the profit or loss reported in the period of an acquisition and the future periods, as well as the amount of goodwill recognised in a business combination. The revisions to accounting for contingent consideration and the requirements to consider the amounts transferred to employees should be taken into account when negotiating the terms of the contract to avoid reporting transaction amounts that are different to the ones intended. Greater time and effort will be required at the time of the acquisition to identify and measure the elements in the transaction, where much greater involvement of experts which will add cost to the transaction. Additional disclosure requirements will need to be considered by Group in advance.

HKFRS 2 categorises vesting conditions as either service conditions or performance conditions. The amendments restrict the definition of "vesting condition" to condition that includes an explicit or implicit requirement to provide services. Therefore, any condition that does not have such a requirement is a non-vesting condition. The amendments generally require "non-vesting" conditions to be treated similarly to market conditions. Non-vesting conditions, like market conditions, are only taken into account to determine the fair value of the equity instruments granted.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

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

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed.

HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements.

HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

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

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates 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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation 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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises 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.

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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 when an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-Current assets and disposal groups held for sale". 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 or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Non-current assets and disposal group held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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 and 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assess whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

All regular with 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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. The net fair value gain of loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables, include trade receivables, deposits and other receivables and cash and cash equivalents, 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 less any allowance for impairment. 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, include available-for-sale investments, 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 recognised as a separated component of equity until the investment is derecognised 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised as income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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.

Impairment of financial assets

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. Loans and receivable together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the 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 by adjusting the allowance account. 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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 derecognised 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 has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured (or on a derivative asset that is linked to and must be settled by delivery of such and unquoted equity instrument), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" of "prolonged" requires judgment. In addition, the Group evaluates other factors, such as the share price volatility. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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 loans)

Financial liabilities including trade payable, other payable and accruals, and 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. The related interest expense is recognised within "finance cost" in the income statement.

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 an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

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

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 that are readily convertible into known amounts of cash are subject to an insignificant risk of changes in values and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the 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 its probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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.

- Dividend income, when the shareholders' right to receive payment has been established.

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 30. 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 dates 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

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.

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 dates 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries and associates 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 rate ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in 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 rate 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 rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$111,688,000 (2006: HK$21,454,000). More details are given in note 17.

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying value of the inventories and the write-down write-back of the inventories in the period in which such estimate has been changed.

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

Estimation uncertainty *(Continued)*

Impairment of trade receivables

The impairment of trade receivables is made based on the assessment of the recoverability of the trade receivables. The identification of doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of the receivables and the impairment/write-back of trade receivables in the period in which the estimate has been changed.

Impairment of items of property, plant and equipment

The carrying amounts of the items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in Section 2. The recoverable amount of the property, plant and equipment is the higher of net selling price and value in use, and the calculations of which involve the use of estimates.

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) Home furniture sold through franchise shops (previously known as "wholesale of home furniture"); and

(b) Home furniture sold through self-operating shops (previously known as "retail of home furniture").

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

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.

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 2007 and 2006.

Year ended 31 December 2007	Franchise shops HK$'000	Self-operating shops HK$'000	Elimination HK$'000	Consolidated HK$'000
Segment revenue:				
Sales to customers	518,492	96,541	–	615,033
Intersegment sales	51,935	–	(51,935)	–
Total	570,427	96,541	(51,935)	615,033
Segment results	54,183	8,449	–	62,632
Unallocated gains				1,582
Unallocated expenses				(6,927)
Finance costs				(1,861)
Share of profits of associates				1,520
Equity-settled share option expense				(2,543)
Profit before tax				54,403
Tax				(2,091)
Profit for the year				52,312

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2006	Franchise shops HK$'000	Self-operating shops HK$'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 expense				(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 31 December 2007	Franchise shops HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Assets and liabilities			
Segment assets	649,959	111,846	761,805
Interest in an associate			31,067
Unallocated assets			55,388
Total assets			848,260
Segment liabilities	172,817	15,845	188,662
Unallocated liabilities			121,327
Total liabilities			309,989
Other segment information:			
Depreciation	18,452	6,519	24,971
Goodwill	45,917	65,771	111,688
Capital expenditure	91,434	3,516	94,950

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2006	Franchise HK$'000	Self-operating shops HK$'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)*

(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 2007 and 2006.

Segment revenue	2007 HK$'000	2006 HK$'000
Sales to the People's Republic of China (the "PRC")	**586,269**	474,890
Sales to elsewhere in Asia	**4,688**	4,208
Sales to Australia	**88**	–
Sales to South Africa	**769**	23
Sales to Europe	**9,034**	3,262
Sales to Middle East	**14,185**	6,760
	615,033	489,143

	Segment assets		Capital expenditure	
Other segment information	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
The PRC	**848,260**	596,906	**94,950**	113,732

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:

	2007 HK$'000	2006 HK$'000
Revenue	**615,033**	489,143
Other income and gains		
Bank interest income	**119**	440
Accessories income	**53,087**	38,821
Gain on disposal of equity investments at fair value through profit or loss	**1,290**	2,050
Others	**73**	834
	54,569	42,145

6. PROFIT BEFORE TAX

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

	Notes	2007 HK$'000	2006 HK$'000
Cost of goods sold		**446,837**	361,605
Depreciation	14	**24,971**	26,458
Amortisation of license rights of trademarks *	16	**820**	809
Loss on disposal of items of property, plant and equipment		**5,183**	1,265
Research and development costs		**6,940**	3,430
Minimum lease payments under operating leases:			
Land and building		**23,114**	13,953
Auditors' remuneration		**1,880**	1,820
Employee benefits expense (excluding directors' remuneration (note 8))			
Wages and salaries		**59,220**	37,144
Equity-settled share option expense		**2,543**	6,520
Pension scheme contributions		**2,348**	1,378
Less: Forfeited contributions		**–**	–
Net pension scheme contributions		**2,348**	1,378
		64,111	45,042
Impairment of accounts receivables	22	**1,724**	768
Foreign exchange gains/losses, net		**–**	14
Bank interest income		**(119)**	(440)
Gain on disposal of equity investments at fair value through profit or loss		**(1,290)**	(2,050)

* The amortisation of license rights of trademarks for the year is included in "Administrative expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on bank loans	**1,861**	508

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007	2006
	HK$'000	HK$'000
Fees	**1,692**	1,692
Other emoluments:		
Basic salaries, allowances and benefits in kind	**7,752**	7,752
Employee share option benefits	**980**	–
Discretionary bonuses	**861**	1,077
	11,285	10,521

(a) Independent non-executive directors

	2007		2006	
		Employee share option		Employee share option
	Fees	**benefits**	Fees	benefits
Group	**HK$'000**	**HK$'000**	HK$'000	HK$'000
Mr. Donald H. Straszheim	**312**	**174**	312	–
Mr. Yau Chung Hong	**240**	**87**	240	–
Mr. Chang Chu Fai, J. Francis	**240**	**87**	240	–
	792	**348**	792	–

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2007						
Executive directors:						
Mr. Tse Kam Pang	**300**	**3,000**	**375**	**–**	**–**	**3,675**
Mr. Lam Toi	**300**	**2,592**	**216**	**–**	**–**	**3,108**
Mr. Ma Ming Fai,Gary	**300**	**2,160**	**270**	**632**	**–**	**3,362**
	900	**7,752**	**861**	**632**	**–**	**10,145**

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

	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'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
Ms. 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

8. DIRECTORS' REMUNERATION *(Continued)*

During the year, discretionary bonuses paid or receivable by the executive directors amounted to HK$861,000 (2006: HK$1,077,000). 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 (2006: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Basic salaries, allowances and benefits in kind	**1,755**	1,211
Pension scheme contributions	**24**	26
Employee share option benefits	**1,012**	1,012
Discretionary bonuses	**71**	–
	2,862	2,249

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

	Group	
	2007	2006
	HK$'000	HK$'000
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	–
	2	2

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

During the year, share options were granted to one director and one non-director, highest paid employees in their service to the group, further details of which are included in the disclosures in note 30. 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 directors, highest paid employees' remuneration disclosures. Discretionary bonuses were paid to or received by the four of the five highest paid individuals of the Group during the year, amounted to HK$931,950 (2006: Nil). 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 (2006: Nil).

10. TAX

Hong Kong profits tax has not been provided 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	HK$'000
Group:		
Current – PRC corporate income tax	**2,091**	307
Total tax charge for the year	**2,091**	307

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Profit before tax	**54,403**	23,411
Tax at the applicable tax rate at 24% (2006: 24%)	**13,057**	5,519
Lower income tax rate for Hong Kong at 17.5% (2006: 17.5%)	**–**	343
Lower income tax rate for the PRC at 12% (2006: 10.5%)	**(1,180)**	(2,238)
Income not subject to tax	**(9,901)**	(12,237)
Expenses not deductible for tax	**236**	7,442
Others	**(121)**	1,478
Tax charge at the Group's effective rate	**2,091**	307

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 People's Republic of China ("PRC") on Enterprises with Foreign Investment and Foreign Enterprise, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), Guangzhou Full Fat Furniture Limited ("Fufa"), Guangzhou Yufa Furniture Company Limited ("Yufa") and Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply (Dongguan) Furniture Limited ("Simply"), wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a preferential corporate income tax rate of 24%. These subsidiaries are also exempt from PRC corporate income tax for the first two profitable years of their operations and are eligible to a 50% reduction 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 fifth profit making year. Tax rate of Simply and Fufa was 12% as they were in its third profit making year. No corporate income taxes were made by management for Yufa as it was in its first profitable year. Fuli is in the pre-operating period.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in a change of income tax rate. According to HKAS12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. However, the change in tax rate has no material impact on the results and financial position of the Group for the year ended 31 December 2007.

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 2007 includes a loss of HK$4,061,000 (2006: a profit of HK$11,164,000), which has been dealt with in the financial statements of the Company (note 31(b)).

12. DIVIDENDS

	Group	
	2007	2006
	HK$'000	HK$'000
Interim dividend – 2007: HK1.2 cents (2006: Nil) per ordinary share	**3,509**	–
Proposed final dividend – 2007: HK2.5 cents (2006: HK2.0 cents) per ordinary share	**7,779**	5,848
	11,288	5,848

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.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

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

	Group	
	2007	2006
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**50,406**	23,104

	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**295,837,173**	260,114,000
Effect of dilution – weighted average number of ordinary shares: share options	**5,137,469**	1,008,848
	300,974,642	261,122,848

There are totally 3,400,000 options (2006: 2,800,000 options) excluded in the calculation of diluted earning per share because their exercise prices exceed the average market price during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	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 2007							
At 31 December 2006 and at 1 January 2007:							
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
At 1 January 2007, net of accumulated depreciation	157,162	7,187	63,882	5,322	3,262	46,283	283,098
Additions	18,374	7,449	6,439	2,951	1,708	58,029	94,950
Acquisition of a subsidiary/ businesses (note 32)	175	618	–	116	–	1,752	2,661
Disposals	(1,897)	(892)	(636)	(802)	(1,290)	–	(5,517)
Disposal of a subsidiary (note 33)	(167)	–	–	–	–	(1,752)	(1,919)
Depreciation provided during the year	(2,205)	(8,334)	(10,396)	(2,390)	(1,646)	–	(24,971)
Transfers	85,766	–	–	–	166	(85,932)	–
Transfer to non-current assets held for sales (note 25)	(11,243)	–	–	–	–	–	(11,243)
Exchange realignment	11,191	1,088	4,450	121	122	1,639	18,611
At 31 December 2007, net of accumulated depreciation	257,156	7,116	63,739	5,318	2,322	20,019	355,670
At 31 December 2007:							
Cost or valuation	286,593	20,667	109,143	13,553	9,979	20,019	459,954
Accumulated depreciation	(29,437)	(13,551)	(45,404)	(8,235)	(7,657)	–	(104,284)
Net carrying amount	257,156	7,116	63,739	5,318	2,322	20,019	355,670
Analysis of cost or valuation:							
At cost	–	7,116	63,739	5,318	2,322	20,019	98,514
At 31 December 2007 valuation	257,156	–	–	–	–	–	257,156
	257,156	7,116	63,739	5,318	2,322	20,019	355,670

14. PROPERTY, PLANT AND EQUIPMENT *(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 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 and 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	–	7,187	63,882	5,322	3,262	46,283	125,936
At 31 December 2006 valuation	157,162	–	–	–	–	–	157,162
	157,162	7,187	63,882	5,322	3,262	46,283	283,098

The leasehold land and buildings of the Group are located in Mainland China, and have a net book value of HK$257,156,000 as at 31 December 2007. 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 in 2006. Leasehold land and buildings at 31 December 2007 represented buildings which were revalued at 31 December 2006, by LCH Asia-Pacific Surveyors Limited, independent professionally qualified valuers, based on their existing use. The directors are of the opinion that the carrying amount of the leasehold land and buildings as at 31 December 2007 is a close approximation to the fair value.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$136,254,000.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**19,834**	13,860
Additions during the year	**770**	–
Reclassified during the year	**–**	6,203
Transferred to non-current assets held for sale (note 25)	**(6,340)**	–
Acquisition of a subsidiary (note 32)	**9,821**	–
Disposal of a subsidiary (note 33)	**(10,006)**	–
Recognised during the year	**(427)**	(610)
Exchange realignment	**1,633**	381
Carrying amount at 31 December	**15,285**	19,834
Current portion included in prepayments, deposits and other receivables	**(655)**	(610)
Non-current portion	**14,630**	19,224

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

16. OTHER INTANGIBLE ASSETS

Group

	Licence rights of trademarks HK$'000
31 December 2007:	
Cost at 1 January 2007, net of accumulated amortisation	**6,124**
Addition during the year	**15**
Amortisation provided during the year	**(820)**
Exchange realignment	**410**
Cost and carrying amount at 31 December 2007	**5,729**
At 31 December 2007:	
Cost	**8,018**
Accumulated amortisation	**(2,289)**
Net carrying amount	**5,729**

Group

	Licence rights of trademarks HK$'000
31 December 2006:	
At 1 January 2006:	
Cost	7,998
Accumulated amortisation	(1,320)
Net carrying amount	6,678
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	6,124
At 31 December 2006 and at 1 January 2007:	
Cost	8,003
Accumulated amortisation	(1,879)
Net carrying amount	6,124

17. GOODWILL

Group

	HK$'000
31 December 2006:	
At 1 January 2006 and 31 December 2006	
Cost	26,111
Accumulated impairment	(4,657)
Net carrying amount	21,454
Cost at 1 January 2006 and 31 December 2006, net of accumulated impairment	21,454
Cost at 1 January 2007, net of accumulated impairment	21,454
Acquisition of a subsidiary/business (note 32)	88,119
Exchange realignment	2,115
Cost and carrying amount at 31 December 2007	111,688
At 31 December 2007:	
Cost	116,345
Accumulated impairment	(4,657)
Net carrying amount	111,688

17. GOODWILL *(Continued)*

Impairment testing of goodwill

Key assumptions were used in the value in use calculation of the retail and wholesale cash-generating units for 31 December 2007 and 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and raw material price inflation.

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

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 five-year period. The discount rate 11.18% applied to the cash flow projects was determined after considering lending rates offered to enterprises by large financial institutions in mainland China. The annual growth rate is in line with the average growth rate of the industry.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**91,744**	45,344
Due from subsidiaries	**134,027**	120,943
	225,771	166,287

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 2007 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 US$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary US$10,000	–	100	Investment holding and trading of furniture
Wanlibao	PRC (Note a)	PRC	Paid-up registered US$5,700,000	–	100	Manufacture and trading of furniture
Fufa	PRC (Note b)	PRC	Paid-up registered US$20,000,000	–	100	Manufacture and trading of furniture
Simply	PRC (Note c)	PRC	Paid-up registered US$18,000,000	–	100	Manufacture and trading of furniture
Yufa	PRC (Note d)	PRC	Paid-up registered US$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
King Apex International Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2007 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	
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
Tomford Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Fuli	PRC (Note e)	PRC	Registered capital HK$25,000,000	–	100	Dormant
Censtar International Limited*	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Chitaly Furniture Glabal Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Spring Valley Properties Limited*	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2007 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 Direct	Indirect	Principal activities
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 f)	PRC	Registered capital HK$1,444,234	–	100	Dormant
Signature Industries Limited	BVI	PRC	Ordinary HK$31,000,000	–	71	Manufacture and sales of sofa

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

Notes:

a. 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.

b. 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.

c. 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.

d. 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.

e. 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.

f. 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 ASSOCIATES

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net assets	**11,751**	381
Goodwill on acquisition	**18,307**	6,931
	30,058	7,312
Loans to an associate	**1,009**	1,009
	31,067	8,321

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 from an associate is disclosed in note 22 to the financial statements.

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
Grandeur Industries Limited ("Grandeur")	Ordinary HK$ 10,000	Hong Kong	38	Manufacture and sales of mattress
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 member firm of the Ernst & Young global network.

19. INTEREST IN ASSOCIATES *(Continued)*

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

	2007 **HK$'000**	2006 HK$'000
Assets	**62,134**	3,556
Liabilities	**28,374**	2,602
Revenue	**111,946**	17,365
Profit	**8,472**	140

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007 **HK$'000**	2006 HK$'000
Unlisted equity investments,		
At cost	**–**	5,800

On 13 November 2007, the Group issued 10,588,000 new shares (HK$0.1 per share) of the Company at HK$1.4 per share (market price on date of shares issued) to acquire an additional 19% equity interest in Grandeur. Upon completion of the transaction, the Group holds 38% of the equity interest in Grandeur and the available-for-sale investment has been transferred to interest in associates. Further details of the transaction are included in note 29 to the financial statements.

21. INVENTORIES

	Group	
	2007 **HK$'000**	2006 HK$'000
Raw materials	**38,420**	31,809
Work in progress	**21,120**	13,608
Finished goods	**100,444**	75,222
	159,984	120,639

22. TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**27,101**	18,438
Impairment	**(3,730)**	(2,006)
	23,371	16,432

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-interesting-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	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**10,246**	8,902
31 days to 90 days	**10,922**	3,196
91 days to 180 days	**2,011**	2,897
Over 180 days	**192**	1,437
	23,371	16,432

22. TRADE RECEIVABLES *(Continued)*

Included in the Group's trade receivables is an amount due from the Group's associate of HK$3,241,626 (2006: HK$1,820,000) which is repayable on similar credit terms to those offered to the major customers of the Group.

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

Group

	2007	2006
	HK$'000	HK$'000
At 1 January	**2,006**	1,238
Impairment losses recognised (note 6)	**1,724**	768
At 31 December	**3,730**	2,006

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**21,168**	11,660
One to three months past due	**2,011**	2,793
Over three months past due	**192**	1,979
	23,371	16,432

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2007 HK$'000	2006 HK$'000
Prepayments	16,771	1,555
Deposits and other receivables	60,320	51,597
	77,091	53,152

Company

	2007 HK$'000	2006 HK$'000
Deposits and other receivables	9,199	291

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Cash and bank balances	51,447	62,662	86	219

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$50,418,000 (2006: HK$46,943,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The non-current assets classified as held for sale as at 31 December 2007 are certain buildings and prepaid land lease payments of the Group in Mainland China with net carrying amounts of HK$11,243,000 and HK$6,340,000 at the date, respectively, that are to be sold by the Group. A deposit of approximately HK$22,135,000 had been received as at December 2007.

26. TRADE PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**58,490**	51,715
31 days to 90 days	**49,486**	26,993
91 days to 180 days	**1,324**	2,041
181 days to 360 days	**39**	2,134
Over 360 days	**258**	257
	109,597	83,140

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

27. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group 2007 HK$'000	Group 2006 HK$'000
Current				
Bank loan – secured	Hong Kong dollars prime rate - 2.6	2008	**30,902**	638

	Effective interest rate (%)	Maturity	Group 2007 HK$'000	Group 2006 HK$'000
Non-Current				
Bank loan – secured	Hong Kong dollars prime rate - 2.6	2009-2022	**11,404**	11,101

27. INTEREST-BEARING BANK LOANS *(Continued)*

	Group	
	2007	2006
	HK$'000	HK$'000
Analysed into:		
Bank loans:		
Within one year	**30,902**	638
In the second year	**620**	924
In the third to fifth years, inclusive	**2,017**	2,772
Beyond five years	**8,767**	7,405
	42,306	11,739

The bank loan of the Group is secured by mortgages over the Group's office buildings situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK$30,032,465 (2006: HK$31,807,784).

The carrying amount of the Group's current borrowing approximate to its fair values. The carrying amount and fair value of the Group's non-current borrowings are as follows:

	Carrying amount		Fair value	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loan - secured	**11,404**	11,101	**11,404**	11,101

The fair value of the non-current bank loans have been calculated by discounting the expected future cash flows at the prevailing interest rate.

28. DEFERRED TAX

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

Deferred tax liabilities

Group

	2007 Revaluation of leasehold land and buildings HK$'000
Gross deferred tax liabilities at 1 January 2007 and at 31 December 2007	**6,363**

	2006 Revaluation of leasehold land and buildings HK$'000
Gross deferred tax liabilities at 1 January 2006 and at 31 December 2006	6,363

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: 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.

29. SHARE CAPITAL

	2007 HK$'000	2006 HK$'000
Authorised:		
2,000,000,000 (2006: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
311,174,000 (2006: 260,114,000) ordinary shares of HK$0.10 each	**31,117**	26,011

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 2007		260,114,000	26,011	102,346	128,357
Issue of shares	(i), (ii)	42,860,000	4,286	63,786	68,072
Share options exercised	(iii)	8,200,000	820	11,455	12,275
At 1 January 2008 and 31 December 2007		311,174,000	31,117	177,587	208,704

Details of the Company's share option scheme are included in note 30 to the financial statements.

(i) On 6 January 2007, the Company issued 32,272,000 new shares (HK$0.1 per share) of the Company at HK$1.65 per share (market price on date of shares issued) to Assetbest Limited, an independent third party, for the acquisition of 71% equity interest in Signature Industries Limited ("Signature"). Further details of the transaction are included in note 32 to the financial statements.

(ii) In June 2007, the Company entered into an agreement with Platinum Tools Trading Limited, an independent third party, to acquire an additional 19% equity interest in Grandeur. Upon completion of the transaction, the Company hold 38% of the equity interest in Grandeur and the interest in Grandeur will be accounted for as an associate. The transaction was completed on 13 November 2007 and the purchase consideration was satisfied by the issuance of 10,588,000 new shares (HK$0.1 per share) of the Company at HK$1.4 per share (market price on date of shares issued).

(iii) The subscription rights attaching to 400,000 and 7,800,000 share options were exercised at subscription prices of HK$1.35 per share and HK$1.104 per share (note 31), respectively, resulting in the issuance of 8,200,000 share of HK$0.1 each for a total cash consideration of HK$9,151,000. The share option reserve of HK$3,124,000 in respect of the share options exercised during the year is transferred to the share premium account.

30. 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.

The offer of a grant of share options may be accepted within eight days from the date of offer, upon payment of a nominal consideration of HK$ 1 in total by the grantee. The exercise period of the share option granted is determined by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the scheme, if earlier.

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

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

30. SHARE OPTION SCHEME *(Continued)*

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

	Number of share options								Price of the Company's shares ***			
Name or category of participant	At beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	At end of year	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK$ per share	At grant date of options HK$ per share	Immediately before the exercises 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	–	–
		800,000	–	–	–	800,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33	–	–
Yau Chung Hong	200,000	–	–	–	–	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45	–	–
		400,000	(400,000)	–	–	–	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33	1.76	1.77
Chang Chu Fai, J. Francis	200,000	–	–	–	–	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35	–	–
		400,000	–	–	–	400,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33	–	–
Ma Ming Fai, Gary	–	2,900,000	–	–	–	2,900,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33	–	–
Others												
Members of senior management and other employees of the Group	–	4,300,000	–	–	–	4,300,000	9/7/2007	10/7/2007 to 9/7/2017	1.516	1.48	–	–
	100,000	–	–	–	–	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	–	–
	1,500,000	–	–	–	–	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675	–	–
	15,800,000	–	(7,800,000)	–	–	8,000,000	15/11/2006	16/11/2006 to 15/11/2016	1.104	1.08	2.10	1.82
	17,400,000	4,300,000	(7,800,000)	–	–	13,900,000						
In aggregate	18,600,000	8,800,000	(8,200,000)	–	–	19,200,000						

30. 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$2,543,445, of which the Group recognised a share option expense of HK$2,543,445 during the year end 31 December 2007.

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 2007:

	Granted on 2 May 2007	**Granted on 9 July 2007**
Dividend yield (%)	–	1.35
Expected volatility (%)	41	64.06
Historical volatility (%)	41	64.06
Risk-free interest rate (%)	3.97	4.13
Expected life of option (year)	1	1
Exercise price (HK$)	1.35	1.516
Share price at grant date (HK$)	1.33	1.48

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 19,200,000 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 19,200,000 additional ordinary shares of the Company and additional share capital of HK$1,920,000 and share premium of HK$31,202,000 (before issue expenses).

30. SHARE OPTION SCHEME *(Continued)*

At the date of approval of these financial statements, the Company had 19,200,000 share options outstanding under the Scheme, which represented approximately 6% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

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

(b) Company

	Share premium account (Note (a)) HK$'000	**Contributed surplus** (Notes (a)&(b)) HK$'000	**Share option reserve** (Notes (c)) HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2006	102,346	45,144	4,340	(30,526)	121,304
Equity-settled share option expense	–	–	6,520	–	6,520
Proposed final 2006 dividend	–	–	–	(5,848)	(5,848)
Profit for the year	–	–	–	11,164	11,164
At 31 December 2006 and at 1 January 2007	102,346	45,144	10,860	(25,210)	133,140
Issue of shares	63,786	–	–	–	63,786
Share option exercised	11,455	–	(3,124)	–	8,331
Equity-settled share option expense	–	–	2,543	–	2,543
Proposed final 2007 dividend	–	–	–	(7,779)	(7,779)
Loss for the year	–	–	–	(4,061)	(4,061)
At 31 December 2007	177,587	45,144	10,279	(37,050)	(195,960)

31. RESERVES *(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 therefore.

(c) 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/(accumulated losses) should the related options expired or be forfeited.

32. BUSINESS COMBINATION

On 6 January 2007, the Group acquired a 71% interest in Signature from Assetbest Limited, an independent third party. Signature is engaged in the manufacture of sofa products. The purchase consideration for the acquisition was in the form of allotment of 32,272,000 new shares of the Company. The shares were valued of the market price of HK$1.65 per share of the Company on 6 January 2007.

The fair values of the identifiable assets and liabilities of Signature as at the date of acquisition, which have no significant differences from their carrying amounts, are as follows:

Signature

	Notes	2007 HK$'000
Property, plant and equipment	14	1,426
Prepaid land lease payments	15	9,821
Cash and bank balances		992
Trade receivables		8,741
Inventories		7,834
Prepayments and other receivables		7,881
Trade payables		(6,320)
Other payables and accruals		(18,212)
Minority Shareholders' loan		(3,422)
Minority interests		(2,536)
		6,205
Goodwill on acquisition	17	47,044
Satisfied by the issuance of shares		53,249

32. BUSINESS COMBINATION *(Continued)*

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

	2007 HK$'000
Cash and bank balances acquired	**992**
Net inflow of cash and cash equivalents in respect of the acquisition of Signature	**992**

On 27 December 2007, the Group entered into an acquisition agreement with an independent third party, to acquire six retail outlets in Zhengzhou, the PRC. The purchase consideration for the acquisition was in the form cash of RMB19,000,000 (equivalent to HK$20,308,000), which will be settled within 6 months from the date of acquisition.

The fair values of the identifiable assets and liabilities of Zhengzhou outlets as at the date of acquisition, which have no significant differences from the carrying amounts, are as follows:

Zhengzhou

	Notes	2007 HK$'000
Property, plant and equipment	14	**856**
Cash and bank balances		**388**
Trade receivables		**(614)**
Inventory		**3,250**
Prepayments and other receivables		**392**
Trade payables		**(1,012)**
Accruals and other payables		**(4,023)**
		(763)
Goodwill on acquisition	17	**21,071**
Satisfied will be payable by cash		**20,308**

32. BUSINESS COMBINATION *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2007 HK$'000
Cash consideration	**(20,308)**
Cash and bank balances acquired	**388**
Outstanding payables at end of year	**20,308**
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**388**

On 28 May 2007, the Group entered into an acquisition agreement with an independent third party, to acquire five retail outlets in Hangzhou, the PRC. The purchase consideration for the acquisition was in the form cash of RMB19,000,000 (equivalent of HK$19,494,000), which will be settled within 3 months form the date of acquisition.

The fair values of the identifiable assets and liabilities of Hangzhou outlets as at the date of acquisition, which have no significant differences from the carrying amounts, are as follow;

Hangzhou

	Notes	2007 HK$'000
Property, plant and equipment	14	**379**
Cash and bank balances		**80**
Trade receivables		**8**
Inventory		**1,724**
Prepayments and other receivables		**243**
Trade payables		**31**
Accruals and other payables		**(2,975)**
		(510)
Goodwill on acquisition	17	**20,004**
Satisfied by cash		**19,494**

32. BUSINESS COMBINATION *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2007 HK$'000
Cash consideration	**(19,494)**
Cash and bank balances acquired	**80**
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**(19,414)**

33. DISPOSAL OF A SUBSIDIARY

	Note(s)	2007 HK$'000
Net assets disposal of:		
Property, plant and equipment	14	**1,919**
Prepaid land lease payments	15	**10,006**
Cash and bank balances		**120**
Prepayments and other receivables		**6,748**
Accruals and other payables		**(2,425)**
		16,368
Gain on disposal of a subsidiary		**733**
		17,101
Satisfied by:		
Cash		**17,101**

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2007 HK$'000
Cash consideration	**17,101**
Cash and bank balances disposal of	**(120)**
Outstanding receivables at end of year	**(17,101)**
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(120)**

34. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**26,896**	18,823
In the second to fifth years, inclusive	**21,809**	17,406
After five years	**–**	819
	48,705	37,048

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for:		
The construction of land and buildings	**17,442**	26,160
The purchase of property, plant and machinery	**1,594**	8,000
	19,036	34,160

36. CONTINGENT LIABILITIES

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

37. RELATED PARTY TRANSACTIONS

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

	Group	
	2007	2006
	HK$'000	HK$'000
Associates:		
Sale of products	**7,474**	5,500
Purchase of products	**61,568**	–

The sale and purchase to/from the associates were made according to the published prices and conditions offered to the major customers of the Group.

(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 are included in note 19 and note 22 to the financial statements.

(c) Compensation of key management personnel of the Group

	Group	
	2007	2006
	HK$'000	HK$'000
Salary, allowances and benefits in kind	**8,307**	7,519
Discretionary bonuses	**932**	1,077
Employee share option benefits	**1,816**	1,012
Pension scheme contributions	**24**	26
Total compensation paid to key management personnel	**11,079**	9,634

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks. Generally, the Group employs a conservative strategy regarding its risk management.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's long term debt obligation with a floating interest rate.

The interest-bearing borrowing with a floating interest rate is denominated in the Hong Kong dollar. If there would be a general increase/decrease in the interest rate of bank and other borrowings with floating interest rates by 25 basis points, with all other variables held constant, the profit before tax and owners' equity for the Group would have been decreased/increased by approximately HK$55,000 and HK$29,000 for the year ended 31 December 2007 and 2006 respectively.

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 72% (2006: 71%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(ii) Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the balance date to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in owner's equity
	%	HK$000	HK$000
2007			
If HK$ weakens against RMB	**5%**	**3,683**	**3,683**
If HK$ strengthens against RMB	**(5%)**	**(3,683)**	**(3,683)**
2006			
If HK$ weakens against RMB	5%	1,813	1,813
If HK$ strengthens against RMB	(5%)	(1,813)	(1,813)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed across different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. 95% of the Group's debts would mature in less than one year as at 31 December 2007 (2006: 93%) based on the carrying values of borrowings reflected in the financial statements.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(iv) Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

		2007	
	Less than 1 year	**Over 1 year**	**Total**
	HK$000	**HK$000**	**HK$000**
Interest-bearing bank loans	**30,902**	**11,404**	**42,306**
Trade payables	**109,597**	**–**	**109,597**
Other payables and accruals	**90,469**	**–**	**90,469**
	230,968	**11,404**	**242,372**

Group

		2006	
	Less than 1 year	Over 1 year	Total
	HK$000	HK$000	HK$000
Interest-bearing bank loans	638	11,101	11,739
Trade payables	83,140	–	83,140
Other payables and accruals	61,170	–	61,170
	144,948	11,101	156,049

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(iv) Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Company

	2007		
	Less than 1 year	**Over 1 year**	**Total**
	HK$000	**HK$000**	**HK$000**
Other payables and accruals	**200**	**–**	**200**

Company

	2006		
	Less than 1 year	Over 1 year	Total
	HK$000	HK$000	HK$000
Other payables and accruals	1,798	–	1,798

(v) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank loan, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to equity holders of the parent.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(v) Capital management *(Continued)*

The gearing ratios as at the balance sheet dates were as follows:

Group

	2007 **HK$'000**	2006 HK$'000
Interest-bearing bank loans (note 27)	**42,306**	11,739
Trade payables (note 26)	**109,597**	83,140
Other payables and accruals	**90,469**	61,170
Less: Cash and cash equivalents	**(51,447)**	(62,662)
Net debt	**190,925**	93,387
Equity attributable to capital holders	**533,829**	374,564
Capital and net debt	**724,754**	467,951
Gearing ratio	**26%**	20%

39. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRs during the current year, certain comparative amounts have been added to confirm with the current year's presentation and to show separately comparatives amounts in respect of items disclosed for the first time in 2007.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2008.