Home Furniture Exclusive Supplier
of the Beijing 2008 Olympic Games

Royal FURNITURE
皇朝傢俬

ROYALE FURNITURE HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)
(formerly known as Chitaly Holdings Limited)
(Stock code: 1198)

2008 Annual Report

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

Chairman's Statement

Dear Shareholders,

Since the second half of 2008 when the global financial crisis started to spread across economies, enterprises all over the world have had to face severe challenges. The economies of the US, Europe and Japan were sent into recession, and economic growth also slowed down in China. Whether the Chinese economy is going to resume desired growth depends very much on the ability of the government to stimulate domestic consumption and investment. With demand for housing contracted in China, demand for furniture has also been affected.

Despite the difficult environment, we worked hard and strengthened the foundation of our business during the year. Product management was enhanced to ensure the right products were produced to cater the needs of different market segments. To achieve higher production efficiency and cost effectiveness, we consolidated two production bases into one plant at our Guangzhou headquarters. We also carried out stringent cost control measures to enhance profitability. To cope with changing market conditions, we exercised prudence in network management and placed emphasis on "quality" instead of "quantity" in pursuing expansion of our sales network.

2008 was a demanding year for Royale Furniture, but we made remarkable accomplishment as and riding on our status as the exclusive supplier of home furniture to the Beijing 2008 Olympic Games. We were able to deliver all the home furniture on schedule and earned many compliments. The success of the project, the largest ever and one of the most challenging undertaken by the Company, is a milestone achievement and has given us invaluable experience.

During the year under review, the Company made a write-off of goodwill according to the prevailing accounting standard HKAS36 "Impairment of Assets". However, this write-off of goodwill did not result in any cash outflow or cause any negative effect on the Company's liquidity position as at 31 December 2008.

With the financial crisis yet to be resolved, 2009 will be another challenging year for merchants of consumer products, including durable goods like furniture. Consumers are expected to postpone purchases for the time being, but the Group expects the demand gathered to translate into business for it in due course. We believe the property market in China will grow in the long run at the drive of continuous urbanisation and in turn demand for furniture will rise consistently. In the coming year, we will put effort into strengthening our foundation and sharpening our competitive edges to make sure we are prepared to quickly grasp opportunities that arise when the market recovers. Also, we will continue to focus on developing our core business and furniture related business with the aim of rewarding shareholders for their unwavering support over the years.

In early 2009, to continue to build the "Royal Furniture" brand, we appointed Ms. Carina Lau, a famous movie star in China and Hong Kong, as the new spokesperson for the brand. We are also pleased to report that, boasting outstanding performance serving the Beijing Olympics, we have secured a contract from the Shenzhen Government, China to exclusively supply home furniture to the 26th Summer Universiade, Shenzhen in 2011. The Universiade is staged every two years in a different city and is considered as the most important global sports event after the Olympics. This testifies to the premium brand image of the Group and its ability to deliver quality products and services, attributes that the Group will seek to apply to grow its business continuously in the future.

Chairman's Statement

To strengthen its financial position, the Company made an open offer of new shares to shareholders in February 2009, on the basis of one offer share for every two existing shares held. The open offer was completed in March 2009 and raised around HK$41 million for the Company.

Appreciation

I would like to take this opportunity to thank our franchisees, business associates, overseas customers, fellow shareholders and institutional shareholders for their continuous support and confidence in the Group. My gratitude also goes to our committed management team and staff for their contribution in the past year.

Tse Kam Pang
Chairman
20 April 2009

Management Discussion & Analysis

Dividend

The Board recommends a payment of a final dividend of HK1.0 cent per share for the year ended 31 December 2008. Together with the interim dividend of HK1.2 cents per share, the total dividend for the year ended 31 December 2008 is HK2.2 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 2009 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 5 June 2009.

Closure of the Register of Members

The Register of Members of the Company will be closed from 29 May 2009 to 5 June 2009, 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 27 May 2009.

Financial review

During the year under review, the Group's revenue increased by 28.6% to HK$791 million and its gross profit margin also improved from 27.3% to 30.6%, mainly attributable to the exclusive supply of furniture to the Beijing 2008 Olympic Games. The gross margin of sales to franchisees rose from 23.2% to 29.6% and the gross margin of self-operating shops decreased to 35.2%. As a result of increase in selling and administrative expenses and a write-off of goodwill which was made according to HKAS 36 "Impairment of Assets", the Group recorded a loss attributable to equity holders of HK$90 million for the year. Excluding the write-off of goodwill, the Group would have recorded a profit of HK$22 million.

Business Review

Product Management

During the year under review, the Group continued to enhance product management to ensure it was producing the right products for each market segment. The Group instructed its sales team to study the furniture market and the impacts of the recent financial crisis on the Chinese economy to provide relevant reference for the Group to design products to suit market needs in the coming years. During the year, the Group offered seven products series including Light Walnut, Black Walnut, Sabili, Olympic Home, etc. which brought in stable revenues.

During the year, the sales team and product development team worked closely and commenced development of a new product series - "Beech" - to offer yet another choice of quality and value-for-money furniture to customers apart from the Olympic Home series. This new series is scheduled to launch formally in mid-2009.

Management Discussion & Analysis

Production Efficiency

During the year under review, the Group decided to merge two production bases into one at its Guangzhou headquarters to increase production efficiency and hence reduce production costs. In addition, the Group also carried out stringent cost control to enhance profitability. To encourage better performance among employees and efforts to heighten work efficiency, the Group raised the performance targets of the workforce and different operational units. It also continued to improve the logistics system to shorten the production lead time.

Sales Network

As at the end of 2008, the Group had over 1,400 franchise outlets (2007: 1,300 outlets) spanning across China and operated around 100 self-operating shops (2007: over 100 shops) in Beijing, Shanghai, Shenzhen, Hangzhou and Zhengzhou. The economic downturn which started in the second half year created pressure on the business of the Group in the traditional peak season. To boost sales performance during the period, the Group offered a variety of discount packages to stimulate sales for franchisees and its self-operating shops. To cope with changing market conditions, we exercised prudence in network management and placed emphasis on “quality” instead of “quantity” in pursuing expansion of our sales network.

Completion of Olympic Project

During the year, the Group completed the “Olympic Project” - exclusive supply of home furniture to the Beijing 2008 Olympic Games. The Group had received zero complaint against its furniture, evidencing its ability in designing and manufacturing high quality, comfortable and environmentally-friendly furniture. The experience has strengthened its foundation and confidence in bidding for big orders and participating in major projects.

Achievements

In early 2008, the Group was named one of the “Top Ten Influential Brand of Chinese Furniture Industry” and the “Top 500 Chinese Brand”. These titles represented recognition of the Group’s tremendous efforts in promotion and marketing activities and brand building efforts that have notably enhanced its brand to the benefit of its business in the long run.

Prospects

Looking forward, with the global financial crisis far from over, economies worldwide are expected to remain weak and so will consumption sentiment. The phenomenon points to intense competition in the furniture industry. In addition, the outlook of the property market in China continues to be sluggish and that will inevitably affect the furniture market. Heeding the testing business environment, the Group will focus on its core values and strive to consolidate its strength and business foundation to make sure of its ability to overcome the challenges ahead.

First of all, the Group will focus on strengthening its core attributes including its brand name, extensive sales network, proven business structure as well as its professional management team. The Group will expand its distribution network with caution taking reference of market conditions. To ensure the quality and healthy growth of its sales network, the Group will continue to restructure the related management system aiming for decentralisation of franchisee management. Also, the Group will take all measures to keep costs at a reasonable level so as to sustain profitability.

To continue to boost the standing of the "Royal Furniture" brand, the Group appointed Ms. Carina Lau, a well-known movie star in China and Hong Kong, as its new spokesperson in 2009. The advertising campaign featuring Ms. Lau has been widely broadcasted starting from March 2009 on CCTV channels and other popular TV channels in China, helping to put the "Royal Furniture" brand on top of the consumers' mind.

Boasting success with the Olympic project and reputed as a leading furniture manufacturer in China, the Group has won a contract from the Shenzhen Government, China to supply home furniture for the 26th Summer Universiade, Shenzhen, of which the scale is second to the Olympic Games, in 2011. This project will strengthen the Group's image as a professional furniture manufacturer capable of providing quality furniture and after-sales services to mega events.

Guided by prudent business strategies and striving hard to consolidate its business and fortifying its brand, Royale Furniture believes it will be able to maintain market leadership and weather the testing economic environment. It is confident of making advancement once the market begins to rebound and in turn securing good returns for shareholders in the long run.

Liquidity and Financial Resources

The Group maintained a cash and bank balances of HK$40 million as at 31 December 2008 (2007: HK$51 million). The Group is principally financed by net cash inflow from operating activities. The Group believes that funds generated from its internal operations are adequate to meet the future requirements of operating its business.

As at 31 December 2008, except for interest-bearing bank loans amounting to HK$39 million, the Group had no other bank borrowings and contingent liabilities. As at the same date, the gearing ratio was 30.3% (2007: 26.3%).

As at 31 December 2008, approximately 90.5% of the Group's cash was denominated in Renminbi and the remaining balance of the Group's cash was denominated in Hong Kong Dollars. The exposure to exchange fluctuation was minimal.

As at 31 December 2008, the liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 0.97 times (2007: 1.13) and the net current liabilities was HK$8,752,000 (2007: net current assets of HK$37,254,000).

Corporate Governance Report

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 2008, 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 15 to 16 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 2008	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	3
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 7 June 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 2008. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	Number of Audit Committee meetings in 2008	Number of meetings attended
Dr. Donald H. Straszheim	2	1
Mr Chang Chu Fai J. Francis	2	2
Mr. Yau Chung Hong	2	2

During 2008, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2007 and the interim results for the six months ended 30 June 2008 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 2007. The Committee approved the auditor's remuneration and carried out assessment of their independence. During 2008, 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.

There was one meeting of the Remuneration Committee held in 2008. Details of the members attendance record in the year are as follows:

Directors Attendance

Name	Number of Remuneration Committee meetings in 2008	Number of meetings attended
Dr. Donald H. Straszheim	1	1
Mr Chang Chu Fai J. Francis	1	1
Mr. Yau Chung Hong	1	1

Details of the remuneration of each Director for 2008 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 2008.

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 2008, 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 27 and 28 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 2008 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 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 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

Management Profile

DIRECTORS

Executive Directors

Mr. TSE Kam Pang, aged 54, 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 19 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 45, 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 46, 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 21 years of experience in China trade and furniture business. Mr. Lam is presently the association honourary chairman of the Furniture and Lighting All-China Federation of Industry and Commerce.

Independent non-executive Directors

Dr. Donald H. Straszheim, age 67, is Managing Principal of Straszheim Global Advisors, Inc., an economics, business, financial markets and public policy consultancy founded in 2001. His firm focuses on China and the US and global economies, and the growth, change, development and interaction of China's economy with the rest of the world. He holds a B.S., M.S. and Ph.D. from Purdue University, is a visiting Scholar at UCLA's Anderson School of Management, and a regular writer and commentator on economic, business and financial issues in the global media. He has testified before the U.S. Congress on various economic issues. From 1985 to 1997, Dr. Straszheim was the Chief Economist of Merrill Lynch and Co. ("Merrill Lynch"), in New York, guiding its world-wide economic research effort and its economic spokesperson. He has also been Vice Chairman of Roth Capital Partners, Chief Economist at Wharton Econometrics at the University of Pennsylvania, and Chief Economist of Weyerhaeuser Company.

Mr. Chang, aged 54, was appointed an Independent Non-Executive Director of the Company on 1 July 2005. Mr. Chang is currently 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. He was previously the chairman and an executive director of Trasy Gold Ex Limited and an executive director of Golden 21 Investment Holdings Limited (now known as China Financial Leasing Group Limited). Mr. Chang is currently the Managing Director of Ceres Consultancy Limited and a registered person under the Securities and Futures Ordinance. He was the managing director of Ceres Capital Limited from 2000 to July 2008. He has over 31 years of experience in banking, corporate finance, investment and management. Mr. Chang 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.

Management Profile

Mr. Yau Chung Hong, age 39 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 37, 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 37, 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 35, 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.

Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2008 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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 104.

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 HK1.0 cent per ordinary share (note 12) in respect of the year, to shareholders on the register of members on 5 June 2009. 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.

Report of the Directors

Summary Financial Information

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**790,900**	615,033	489,143	413,257	403,766
(LOSS)/PROFIT BEFORE TAX	**(87,238)**	54,403	23,411	80,446	131,857
Tax	**(2,302)**	(2,091)	(307)	(2,254)	(23,855)
(LOSS)/PROFIT FOR THE YEAR	**(89,540)**	52,312	23,104	78,192	108,002
Attributable to:					
Equity holders of the parent	**(89,626)**	50,406	23,104	78,192	108,002
Minority interests	**86**	1,906	—	—	—
	(89,540)	52,312	23,104	78,192	108,002
ASSETS AND LIABILITIES					
Non-current assets	**473,658**	518,784	344,021	247,809	184,013
Current assets	**279,312**	329,476	252,885	297,007	245,285
Current liabilities	**(288,064)**	(292,222)	(204,878)	(178,756)	(177,188)
Non-current liabilities	**(10,645)**	(17,767)	(17,464)	(18,094)	(18,634)
Net Assets	**454,261**	538,271	374,564	347,966	233,476

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 28 and 29 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 30 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$413.9 million of which HK$4.7 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$2,914,000. (2007: HK$1,641,000).

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 7.0% of the total sales for the year and sales to the largest customer included therein amounted to 1.7% . Purchases from the Group's five largest suppliers accounted for approximately 25.6% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 11.3%.

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 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

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 15 & 16 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 7 June 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 2008, 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 2008, 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)	6,152,000	71,450,000	77,602,000	24.94
Mr. Ma Ming Fai, Gary	(b), (c)	7,714,000	1,798,000	9,512,000	3.06
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)	600,000	980,000	1,580,000	0.51

The interests of the directors in the share options of the Company are separately disclosed in note 29 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. 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 ("Upwise"), a company incorporated in the British Virgin Islands. The entire issued share capital of Upwise is owned by Mr. Ma Gary Ming Fai.

(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 Limited, 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 2008, 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 29 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 no 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 2008, 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 following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options At 1 January 2008 and 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Comapny's shares at grant date of options*** HK$ per share
Directors					
Donald H. Straszheim	800,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80
	800,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Yau Chung Hong	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45
Chang Chu Fai, Johnson Francis	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35
	400,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Ma Gary Ming Fai	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	9/7/2007	10/7/2007 to 9/7/2017	1.516	1.48
	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80
	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675
	8,000,000	15/11/2006	16/11/2006 to 15/11/2016	1.104	1.08
	13,900,000				
In aggregate	19,200,000				

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 closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the trading day immediately prior to the date of grant of the options.

**** The Company purported to grant 30 million options which grant has been subsequently been revoked with the consents of the grantees on 19 March 2009.

Substantial Shareholders' and Other Persons' Interests in Shares

At 31 December 2008, 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%

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 2008, 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 2008 was 2,300 (2007: 3,300). 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 options may also be granted to eligible employees and persons of the Group. At 31 December 2008, there were outstanding share options of approximately 19,200,000.

Report of the Directors

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 8 to 14.

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 2008 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 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
20 April 2009

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 29 to 104, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 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' judgement, 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 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

20 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**790,900**	615,033
Cost of sales		**(549,051)**	(446,837)
Gross profit		**241,849**	168,196
Other income and gains	5	**59,767**	54,569
Selling and distribution costs		**(195,117)**	(97,850)
Administrative expenses		**(68,345)**	(63,244)
Impairment of goodwill		**(111,688)**	–
Other expenses		**(10,884)**	(6,927)
Finance costs	7	**(3,196)**	(1,861)
Share of profits and losses of associates		**376**	1,520
(LOSS)/PROFIT BEFORE TAX	6	**(87,238)**	54,403
Tax	10	**(2,302)**	(2,091)
(LOSS)/PROFIT FOR THE YEAR		**(89,540)**	52,312
Attributable to:			
Equity holders of the parent	11	**(89,626)**	50,406
Minority interests		**86**	1,906
		(89,540)	52,312
DIVIDENDS	12		
Interim		**3,734**	3,509
Proposed final		**4,668**	7,779
		8,402	11,288
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK(28.80) cents**	HK17.04 cents
Diluted		**N/A**	HK16.75 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**398,914**	355,670
Prepaid land lease payments	15	**37,859**	14,630
Goodwill	16	**–**	111,688
Intangible assets	17	**4,880**	5,729
Interests in associates	19	**32,005**	31,067
Total non-current assets		**473,658**	518,784
CURRENT ASSETS			
Inventories	20	**111,607**	159,984
Trade receivables	21	**66,544**	23,371
Prepayments, deposits and other receivables	22	**60,747**	77,091
Cash and cash equivalents	23	**40,414**	51,447
		279,312	311,893
Non-current assets classified as held for sale		**–**	17,583
Total current assets		**279,312**	329,476
CURRENT LIABILITIES			
Trade payables	24	**86,494**	109,597
Other payables and accruals	25	**110,518**	90,469
Interest-bearing bank loans	26	**28,697**	30,902
Tax payable		**62,355**	61,254
Total current liabilities		**288,064**	292,222
NET CURRENT (LIABILITIES)/ASSETS		**(8,752)**	37,254
TOTAL ASSETS LESS CURRENT LIABILITIES		**464,906**	556,038

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	26	**10,645**	11,404
Deferred tax liabilities	27	**—**	6,363
Total non-current liabilities		**10,645**	17,767
Net assets		**454,261**	538,271
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	28	**31,117**	31,117
Reserves	30(a)	**413,948**	494,933
Proposed final dividend	12	**4,668**	7,779
		449,733	533,829
Minority interests		**4,528**	4,442
Total equity		**454,261**	538,271

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent									
	Note	Issued share capital HK$'000 (Note 28)	Share premium account HK$'000	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 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		4,286	63,786	–	–	–	–	–	68,072	–	68,072
Share option exercised		820	11,455	(3,124)	–	–	–	–	9,151	–	9,151
Equity-settled share option expense		–	–	2,543	–	–	–	–	2,543	–	2,543
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	2,536	2,536
Interim 2007 dividend declared	12	–	–	–	–	–	(3,509)	–	(3,509)	–	(3,509)
Proposed final 2007 dividend	12	–	–	–	–	–	(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
At 1 January 2008		31,117	177,587	10,279	20,150	57,044	229,873	7,779	533,829	4,442	538,271
Revaluation of land and buildings		–	–	–	(20,150)	–	–	–	(20,150)	–	(20,150)
Exchange realignment		–	–	–	–	36,770	–	–	36,770	–	36,770
Total income and expense for the year recognised directly in equity		–	–	–	(20,150)	36,770	–	–	16,620	–	16,620
Profit for the year		–	–	–	–	–	(89,626)	–	(89,626)	86	(89,540)
Total income and expense for the year		–	–	–	(20,150)	36,770	(89,626)	–	(73,006)	86	(72,920)
Final 2007 dividend declared		–	–	–	–	–	–	(7,779)	(7,779)	–	(7,779)
Equity-settled share option expense		–	–	423	–	–	–	–	423	–	423
Interim 2008 dividend declared	12	–	–	–	–	–	(3,734)	–	(3,734)	–	(3,734)
Proposed final 2008 dividend	12	–	–	–	–	–	(4,668)	4,668	–	–	–
At 31 December 2008		31,117	177,587*	10,702*	–*	93,814*	131,845*	4,668	449,733	4,528	454,261

* These reserve accounts comprise the consolidated reserves of HK$413,948,000 (2007: HK$494,933,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(87,238)**	54,403
Adjustments for:			
Finance costs	7	**3,196**	1,861
Share of profits and losses of associates		**(376)**	(1,520)
Bank interest income	5	**(520)**	(119)
Loss on disposal of assets held for sales	6	**2,293**	–
Loss on disposal of items of property, plant and equipment	6	**502**	5,183
Depreciation	6	**40,505**	24,971
Recognition of prepaid land lease payments	6	**589**	427
Amortisation of intangible assets	6	**1,209**	820
Foreign exchange loss, net	6	**1,896**	790
Gain on disposal of equity investments at fair value through profit or loss	5	**–**	(1,290)
Equity-settled share option expense	6	**423**	2,543
Goodwill impairment		**111,688**	–
		74,167	88,069
Decrease/(increase) in inventories		**48,377**	(26,527)
(Increase)/decrease in trade receivables		**(43,173)**	1,196
Decrease/(increase) in prepayments, deposits and other receivables		**16,344**	(5,755)
(Decrease)/increase in trade payables		**(23,103)**	28,322
Increase/(decrease) in other payables and accruals		**27,103**	(42,507)
Cash generated from operations		**99,715**	42,798
Income taxes paid		**(1,201)**	(767)
Net cash inflow from operating activities		**98,514**	42,031

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow from operating activities		**98,514**	42,031
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**520**	119
Purchases of items of property, plant and equipment		**(82,660)**	(94,950)
Additions to prepaid land lease payments	15	**(22,730)**	(770)
Proceeds from disposal of items of property, plant and equipment		**35**	334
Proceeds from disposal of assets held for sales		**–**	15,328
Acquisition of a subsidiary		**–**	(18,034)
Additions to intangible assets	17	**–**	(15)
Disposal of a subsidiary		**–**	(120)
Net proceeds from disposal of equity investments at fair value through profit or loss		**–**	1,290
Net cash outflow from investing activities		**(104,835)**	(96,818)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options		**–**	9,151
New bank loans		**18,000**	41,668
Repayment of bank loans		**(22,237)**	(11,101)
Interest paid		**(3,196)**	(1,861)
Dividends paid		**(11,513)**	(9,357)
Net cash (outflow)/inflow from financing activities		**(18,946)**	28,500
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(25,267)**	(26,287)
Cash and cash equivalents at beginning of year		**51,447**	62,662
Effect of foreign exchange rate changes, net		**14,234**	15,072
CASH AND CASH EQUIVALENTS AT END OF YEAR		**40,414**	51,447
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**40,414**	51,447

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**264,997**	225,771
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**9,399**	9,199
Cash and cash equivalents	23	**50**	86
Total current assets		**9,449**	9,285
CURRENT LIABILITIES			
Other payables and accruals	25	**200**	200
NET CURRENT ASSETS		**9,249**	9,085
Net assets		**274,246**	234,856
EQUITY			
Issued capital	28	**31,117**	31,117
Reserves	30(b)	**238,461**	195,960
Proposed final dividend	12	**4,668**	7,779
Total equity		**274,246**	234,856

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

The Group incurred a loss attributable to equity holders of the parent of HK$89,626,000 (2007: a profit of HK$50,406,000), net current liabilities of HK$8,752,000 (2007: net current assets of HK$37,254,000) and reported an overall decrease in cash and cash equivalents of HK$11,033,000 for the year. In addition, as at 31 December 2008, the Group had contracted commitments in respect to future capital expenditure of approximately HK$8,671,000.

In preparing these financial statements, the Directors have given consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flow operations in the immediate and longer term.

In order to strengthen the capital base of the Group and to improve the Group's financial position, liquidity and cash flows in the immediate foreseeable future, in March 2009, the Company has received approximately HK$40,900,000 by issuing 155,587,000 offer shares at the subscription price of HK$0.27 per offer share by way of the open offer on the basis of one offer share for every two existing shares held by the shareholders on 9 February 2009. The net proceeds of the open offer will be used for general working capital of the Group.

2.1 Basis of Preparation *(Continued)*

In light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital for its current requirements. Accordingly, it is appropriate to prepare the financial statements on a going concern basis.

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 2008. 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 & HKFRS 7 Amendments	*Amendments to* HKAS 39 *Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 - *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new interpretations and amendments to HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets *(Continued)*

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 - Group and Treasury Share Transactions

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 buys 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 has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 and HKAS 27 Amendments	*Amendments to HKFRS 1 First-time Adoption of HKFRSs and* HKAS 27 *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	*Amendments to* HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*[1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRS*[2]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	*Amendment to* HKFRS 7 *Financial instruments: Disclosure - Improving Disclosures about Financial Instruments*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	*Amendments to* HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	*Amendment to* HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS39 Amendments	*Amendments to* HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement - Embedded Derivatives*[6]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[5]

Apart from the above, the HKICPA has issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Apply prospectively to transfers of assets from customers received on or after 1 July 2009
6 Effective for annual periods beginning on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

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

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); or

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

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:

Buildings	5%
Leasehold improvements	33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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 least at each balance sheet date.

2.4 Summary of Significant Accounting Policies *(Continued)*

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

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 groups 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 sales 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Intangible assets (other than goodwill) ***(Continued)***

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.

Leases

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

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

Financial assets at fair value through profit or loss

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

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 receivables 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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

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 judgement. 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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

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

Financial liabilities including trade payables, other payables and accruals, and interest-bearing bank loans 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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and 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. 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)*

Share-based payment transactions (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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the 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.

The functional currencies of certain non-Hong Kong 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 rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in 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 non-Hong Kong subsidiaries are translated into Hong Kong dollars at exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-Hong Kong subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. Significant Accounting Judgements and Estimates *(Continued)*

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 2008 was nil (2007: HK$111,688,000). More details are given in note 16.

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 judgments 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.

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 judgments 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 note 2.4. 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) Franchise operation segment engages in the sale of home furniture through franchise operation; and

(b) Self-operating shops segment engages in the sale of home furniture through self-operating shops;

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, loss/profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Franchise operation HK$'000	Self-operating shops HK$'000	Elimination HK$'000	Consolidated HK$'000
Segment revenue:				
Sales to customers	649,818	141,082	—	790,900
Intersegment sales	82,365	—	(82,365)	—
Total	732,183	141,082	(82,365)	790,900
Segment results	329	(77,471)	—	(77,142)
Unallocated gains				4,031
Unallocated expenses				(10,884)
Finance costs				(3,196)
Share of profits and losses of associates				376
Equity-settled share option expense				(423)
Loss before tax				(87,238)
Tax				(2,302)
Loss for the year				(89,540)

4. Segment Information *(Continued)*

(a) Business segments *(Continued)*

As at 31 December 2008

	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Assets and liabilities			
Segment assets	609,271	46,005	655,276
Interests in associates			32,005
Unallocated assets			65,689
Total assets			752,970
Segment liabilities	191,796	13,566	205,362
Unallocated liabilities			93,347
Total liabilities			298,709
Other segment information:			
Depreciation and recognition	34,309	6,785	41,094
Impairment of goodwill	47,044	64,644	111,688
Unallocated amortisation			1,209
			153,991
Capital expenditure	115,940	5,351	121,291

4. Segment Information *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2007

	Franchise operation 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 and losses 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)*

As at 31 December 2007

	Franchise operation HK$'000	Self-operating shops HK$'000	Consolidated HK$'000
Assets and liabilities			
Segment assets	649,959	111,846	761,805
Interests in associates			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 and recognition	18,879	6,519	25,398
Unallocated amortisation			820
			26,218
Goodwill	47,044	64,644	111,688
Capital expenditure	92,219	3,516	95,735

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 2008 and 2007.

Segment revenue	2008 HK$'000	2007 HK$'000
The People's Republic of China (the "PRC")	**731,040**	586,269
Elsewhere in Asia	**7,134**	4,688
Australia	**407**	88
Africa	**565**	769
Europe	**7,336**	9,034
Middle East	**44,418**	14,185
	790,900	615,033

	Total assets		Capital expenditure	
Other segment information	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
The PRC	**752,970**	848,260	**121,291**	95,735

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:

	2008 HK$'000	2007 HK$'000
Revenue		
Sales of goods	**790,900**	615,033
Other income and gains		
Bank interest income	**520**	119
Accessories income	**55,736**	53,087
Gain on disposal of equity investments at fair value through profit or loss	**—**	1,290
Others	**3,511**	73
	59,767	54,569

6. (Loss)/Profit Before Tax

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

	Notes	**2008 HK$'000**	2007 HK$'000
Cost of goods sold		**549,051**	446,837
Depreciation of items of property, plant and equipment	14	**40,505**	24,971
Recognition of prepaid land lease payments	15	**589**	427
Amortisation of intangible assets*	17	**1,209**	820
Loss on disposal of items of property, plant and equipment**		**502**	5,183
Loss on disposal of assets held for sales**		**2,293**	—
Research and development costs*		**7,742**	6,940
Minimum lease payments under operating leases:			
Land and buildings		**41,553**	28,180
Auditors' remuneration		**1,880**	1,880
Employee benefit expense: (excluding directors' remuneration)			
Wages and salaries		**82,566**	78,280
Equity-settled share option expense		**423**	2,543
Pension scheme contributions		**4,838**	4,084
		87,827	84,907
Donation**		**2,914**	1,641
Impairment of trade receivables***	21	**719**	1,724
Foreign exchange loss, net		**1,896**	790
Bank interest income		**(520)**	(119)
Gain on disposal of equity investments at fair value through profit or loss		**—**	(1,290)

* The amortisation of intangible assets and research and development costs for the year are included in "Administrative expenses" on the face of the consolidated income statement.

** Loss on disposal of items of property, plant and equipment, loss on disposal of assets held for sales and donation for the year are included in "Other expense" on the face of the consolidated income statement.

*** Impairment of trade receivables is included in the "Cost of Sales" on the face of the consolidated income statement.

7. Finance Costs

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on bank loans	**3,196**	1,861

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:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**1,692**	1,692
Other emoluments:		
Salaries, allowances and benefits in kind	**7,752**	7,752
Equity-settled share option expense	**–**	980
Performance related bonuses	**646**	861
	10,090	11,285

(a) Independent non-executive directors

	2008		2007	
Group	**Fees**	**Equity-settled share option benefits**	Fees	Equity-settled share option benefits
	HK$'000	**HK$'000**	HK$'000	HK$'000
Mr. Donald H. Straszheim	**312**	**–**	312	174
Mr. Yau Chung Hong	**240**	**–**	240	87
Mr. Chang Chu Fai, J. Francis	**240**	**–**	240	87
	792	**–**	792	348

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. Directors' Remuneration *(Continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Total emoluments HK$'000
2008					
Executive directors:					
Mr. Tse Kam Pang	**300**	**3,000**	**250**	**–**	**3,550**
Mr. Lam Toi	**300**	**2,592**	**216**	**–**	**3,108**
Mr. Ma Gary Ming Fai	**300**	**2,160**	**180**	**–**	**2,640**
	900	**7,752**	**646**	**–**	**9,298**

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'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 Gary Ming Fai	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.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2007: three) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,486**	1,755
Pension scheme contributions	**24**	24
Equity-settled share option expense	**–**	1,012
Performance related bonuses	**47**	71
	1,557	2,862

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

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

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	
	2008	2007
	HK$'000	HK$'000
Group:		
Current — PRC corporate income tax	**2,302**	2,091
Total tax charge for the year	**2,302**	2,091

A reconciliation of the tax expense applicable to (loss)/profit before tax using the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
(Loss)/profit before tax	**(87,238)**	54,403
Tax at the applicable tax rate at 25%(2007: 24%)	**(21,810)**	13,057
Lower income tax rates for specific provinces or enacted by local authority	**(16,278)**	(1,180)
Income not subject to tax	**(336)**	(9,901)
Expenses not deductible for tax	**31,457**	236
Tax losses not recognised	**9,269**	–
Others	**–**	(121)
Tax charge at the Group's effective rate	**2,302**	2,091

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.

10. Tax *(Continued)*

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"), 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 corporate income tax rate of 25%. These subsidiaries are also exempted 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 was 25% as it expired the beneficial period of five years. Tax rate of Simply and Fufa was 12.5% as they were in their forth profit making year. No corporate income taxes were made by management for Yufa as it was in its first beneficial year. Fuli started to operate in October, 2008, and has not gained any profit yet.

The PRC Corporate Income Tax Law ("the New Corporate Income Tax Law"), which was approved in the 5th Session of the 10th National People's Congress concluded on 16 March 2007, became effective on 1 January 2008. The New Corporate Income Tax Law introduced a wide range of changes which include, but were not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises, resulting in a change of income tax rate. According to HKAS 12, 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 realised or the liability is settled. However, the change in tax rate has had no material impact on the results and financial position of the Group for the year ended 31 December 2008.

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated (loss)/profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of HK$50,480,000 (2007: a loss of HK$552,000), which has been dealt with in the financial statements of the Company (note 30(b)).

12. Dividends

	Group 2008 HK$'000	2007 HK$'000
Interim dividend — 2008: HK1.2 cents (2007: HK1.2 cents) per ordinary share	**3,734**	3,509
Proposed final dividend — 2008: HK1.0 cent (2007: HK2.5 cents) per ordinary share	**4,668**	7,779
	8,402	11,288

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

13. (Loss)/Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic (loss)/earnings per share is based on the (loss)/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 for the year ended 31 December 2007 was 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.

Diluted loss per share amounts for the year ended 31 December 2008 have not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basis loss per share for the year.

13. (Loss)/Earnings Per Share Attributable to Ordinary Equity Holders of the Parent *(Continued)*

The calculations of basic and diluted (loss)/earnings per share are based on:

	Group	
	2008	2007
	HK$'000	HK$'000
Loss/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	**(89,626)**	50,406

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**311,174,000**	295,837,173
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	5,137,469
	311,174,000	300,974,642

There were 3,400,000 options excluded in the calculation of diluted earnings per share for the year ended 31 December 2007, because their exercise prices exceeded the average market price in 2007.

14. Property, Plant and Equipment

	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 2008							
At 31 December 2007 and at 1 January 2008:							
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
At 1 January 2008, net of accumulated depreciation	257,156	7,116	63,739	5,318	2,322	20,019	355,670
Additions	3,359	5,238	16,500	621	3,756	69,087	98,561
Disposals	–	(538)	(5,759)	(1,236)	(413)	(256)	(8,202)
Depreciation provided during the year	(17,564)	(6,292)	(13,607)	(1,766)	(1,276)	–	(40,505)
Transfers	77,901	–	–	–	–	(77,901)	–
Revaluations	(26,513)	–	–	–	–	–	(26,513)
Exchange realignment	13,636	425	4,107	263	110	1,362	19,903
At 31 December 2008, net of accumulated depreciation	307,975	5,949	64,980	3,200	4,499	12,311	398,914
At 31 December 2008:							
Cost or valuation	346,853	26,726	125,187	13,420	13,401	12,311	537,898
Accumulated depreciation	(38,878)	(20,777)	(60,207)	(10,220)	(8,902)	–	(138,984)
Net carrying amount	307,975	5,949	64,980	3,200	4,499	12,311	398,914
Analysis of cost or valuation:							
At cost	183,510	26,726	125,187	13,420	13,401	12,311	374,555
At valuation	163,343	–	–	–	–	–	163,343
	346,853	26,726	125,187	13,420	13,401	12,311	537,898

14. Property, Plant and Equipment *(Continued)*

	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	175	618	–	116	–	1,752	2,661
Disposals	(1,897)	(892)	(636)	(802)	(1,290)	–	(5,517)
Disposals of a subsidiary	(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	(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	102,251	20,667	109,143	13,553	9,979	20,019	275,612
At valuation	184,342	–	–	–	–	–	184,342
	286,593	20,667	109,143	13,553	9,979	20,019	459,954

14. Property, Plant and Equipment *(Continued)*

The buildings of the Group are located in Mainland China, and have a net book value of HK$279,718,000 as at 31 December 2008 (2007: HK$227,124,000).

At 31 December 2008, the Group's buildings were revalued by LCH Asia-Pacific Surveyors Limited, independent professionally qualified valuers, based on their existing uses. A revaluation deficit of HK$26,513,000, resulting from the valuation, has been debited to the asset revaluation reserve.

At 31 December 2008, certain of the Group's buildings with a net book value of approximately HK$28,257,000 (2007: HK$30,032,000) were pledged to secure general banking facilities granted to the Group.

15. Prepaid Land Lease Payments

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**15,285**	19,834
Additions during the year	**22,730**	770
Transfer to non-current assets held for sale	**–**	(6,340)
Acquisition of a subsidiary	**–**	9,821
Disposal of a subsidiary	**–**	(10,006)
Recognised during the year	**(589)**	(427)
Exchange realignment	**1,226**	1,633
Carrying amount at 31 December	**38,652**	15,285
Current portion included in prepayments, deposits and other receivables	**(793)**	(655)
Non-current portion	**37,859**	14,630

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

16. Goodwill

Group

	HK$'000
At 1 January 2007 and 31 December 2007	
Cost	116,345
Accumulated impairment	(4,657)
Net carrying amount	111,688
Cost at 1 January 2008, net of accumulated impairment	111,688
Impairment during the year	(111,688)
Cost and carrying amount at 31 December 2008	–
At 31 December 2008:	
Cost	116,345
Accumulated impairment	(116,345)
Net carrying amount	–

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 2008. The recoverable amount of goodwill has been determined based on value in use calculation using market approach method according to the fair value less cost to sell approved by management.

17. Intangible Assets

Group

	Licence rights of trademarks	
	2008	2007
	HK$'000	HK$'000
31 December 2008		
At 1 January:		
Cost	**8,018**	8,003
Accumulated amortisation	**(2,289)**	(1,879)
Net carrying amount	**5,729**	6,124
Cost at 1 January, net of accumulated amortisation	**5,729**	6,124
Additions during the year	**–**	15
Amortisation provided during the year	**(1,209)**	(820)
Exchange realignment	**360**	410
Cost at 31 December, net of accumulated amortisation	**4,880**	5,729
At 31 December:		
Cost	**8,018**	8,018
Accumulated amortisation	**(3,138)**	(2,289)
Net carrying amount	**4,880**	5,729

18. Interests in Subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**91,744**	91,744
Due from subsidiaries	**173,253**	134,027
	264,997	225,771

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 2008 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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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)	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacture and trading of furniture
Fufa	PRC (note b)	Mainland China	Paid-up registered HK$26,000,000	–	100	Manufacture and trading of furniture
Simply	PRC (note c)	Mainland China	Paid-up registered US$18,000,000	–	100	Manufacture and trading of furniture
Yufa	PRC (note d)	Mainland China	Paid-up registered HK$49,505,000	–	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
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

18. Interests in Subsidiaries *(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
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)	Mainland China	Registered capital HK$45,167,000	–	100	Manufacture and trading of furniture
Censtar International Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Chitaly Furniture Global Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Spring Valley Properties Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Competent Holdings Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Investment activities
Royale Furniture Anhui Limited	PRC (note f)	Mainland China	Registered capital HK$1,444,234	–	100	Dormant
Signature Industry Limited	BVI	Mainland China	Ordinary HK$31,000,000	–	71	Manufacture and sale of sofa

18. Interests in Subsidiaries *(Continued)*

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 it 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 12 December 2005.

f. Royale 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. Interests in Associates

	Group 2008 HK$'000	2007 HK$'000
Share of net assets	**12,689**	11,751
Goodwill on acquisition	**18,307**	18,307
	30,996	30,058
Loans to an associate	**1,009**	1,009
	32,005	31,067

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 and payable balances with the associate are disclosed in note 21 and note 24 to the financial statements.

Particulars of the associates 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 sale of mattresses
Gold Power International Co., Ltd. ("Gold Power")	Ordinary shares US$1 each	BVI	40	Investment activities and retail of furniture

19. Interests in Associates *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Assets	**51,766**	62,134
Liabilities	**18,039**	28,374
Revenue	**78,162**	111,946
Profit	**977**	8,472

20. Inventories

	Group	
	2008 **HK$'000**	2007 HK$'000
Raw materials	**31,894**	38,420
Work in progress	**2,214**	21,120
Finished goods	**77,499**	100,444
	111,607	159,984

21. Trade Receivables

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**70,993**	27,101
Impairment	**(4,449)**	(3,730)
	66,544	23,371

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

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 30 days	**42,642**	10,246
31 days to 90 days	**16,722**	10,922
91 days to 180 days	**4,642**	2,011
Over 180 days	**2,538**	192
	66,544	23,371

Included in the Group's trade receivables is an amount due from the Group's associate of HK$ 2,345,000 (2007: HK$3,242,000) which is repayable on similar credit terms to those offered to the major customers of the Group.

21. Trade Receivables *(Continued)*

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**3,730**	2,006
Impairment losses recognised (note 6)	**719**	1,724
At 31 December	**4,449**	3,730

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

	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**59,364**	21,168
One to three months past due	**4,642**	2,011
Over three months past due	**2,538**	192
	66,544	23,371

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.

22. Prepayments, Deposits and Other Receivables

Group

	2008 HK$'000	2007 HK$'000
Prepayments	**6,506**	16,771
Deposits and other receivables	**54,241**	60,320
	60,747	77,091

Company

	2008 HK$'000	2007 HK$'000
Deposits and other receivables	**9,399**	9,199

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.

23. Cash and Cash Equivalents

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Cash and bank balances	**40,414**	51,447	**50**	86

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$36,579,000 (2007: HK$50,418,000). 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.

24. Trade Payables

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

	Group 2008 HK$'000	Group 2007 HK$'000
Within 30 days	**54,776**	58,490
31 days to 90 days	**30,001**	49,486
91 days to 180 days	**806**	1,324
181 days to 360 days	**483**	39
Over 360 days	**428**	258
	86,494	109,597

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

Trade payables of HK$14,595,000 (2007: Nil) due to associates are repayable within 90 days, which represents similar credit terms to those offered by the associates to their major customers.

25. Other Payables and Accruals

Group

	2008 HK$'000	2007 HK$'000
Advances from customers	**21,981**	13,190
Other payables	**76,367**	61,641
Accruals	**12,170**	15,638
	110,518	90,469

Company

	2008 HK$'000	2007 HK$'000
Other payables	**200**	200

Other payables are non-interest-bearing and have an average term of three months.

26. Interest-bearing Bank Loans

Group

	2008			2007		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans-unsecured	**1/2/3-months HIBOR + 1**	**2009**	**28,000**	1/2/3-months HIBOR + 1, or 6.2425	2008	30,306
Current portion of long term — Bank loans-secured	**Hong Kong Dollar Prime Rate - 2.75**	**2009**	**697**	Hong Kong Dollar Prime Rate - 2.75	2008	596
			28,697			30,902
Non-current						
Secured bank loans	**Hong Kong Dollar Prime Rate - 2.75**	**2010-2022**	**10,645**	Hong Kong Dollar Prime Rate - 2.75	2009-2022	11,404
			39,342			42,306

26. Interest-bearing Bank Loans *(Continued)*

	Group 2008 HK$'000	2007 HK$'000
Analysed into:		
Bank loans:		
Within one year	**28,697**	30,902
In the second year	**713**	620
In the third to fifth years, inclusive	**2,238**	2,017
Beyond five years	**7,694**	8,767
	39,342	42,306

A 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$28,257,000 (2007: HK$30,032,000).

The carrying amounts of the Group's current borrowing approximate to its fair value.

27. Deferred Tax Liabilities

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

Group

	Revaluation of leasehold land and buildings HK$'000
At 1 January 2007 and 1 January 2008	6,363
Deferred tax credited to equity during the year	(6,363)
Gross deferred tax liabilities at 31 December 2008	–

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: 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.

28. Share Capital

	2008 HK$'000	2007 HK$'000
Authorised:		
2,000,000,000(2007: 2,000,000,000)		
ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
311,174,000 (2007: 311,174,000)		
ordinary shares of HK$0.10 each	**31,117**	31,117

29. 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.

29. Share Option Scheme *(Continued)*

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 favour of the Company of HK$1.00 by way of consideration for the grant.

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

29. Share Option Scheme *(Continued)*

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

Name or category of participant	Number of share options At 1 January 2008 and 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of the Comapny's shares at grant date of options*** HK$ per share
Directors					
Donald H. Straszheim	800,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80
	800,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Yau Chung Hong	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45
Chang Chu Fai, Johnson Francis	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35
	400,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Ma Gary Ming Fai	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	9/7/2007	10/7/2007 to 9/7/2017	1.516	1.48
	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80
	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675
	8,000,000	15/11/2006	16/11/2006 to 15/11/2016	1.104	1.08
	13,900,000				
In aggregate	19,200,000				

29. 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 closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the trading day immediately prior to the date of grant of the options.

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).

Subsequent to the balance sheet date, the Company effected an open offer of new shares on the basis of one share for every two share of HK$0.1 each held by shareholders on 9 February 2009. Pursuant to the terms of the Scheme, the exercise price of the share options was adjusted to the range from HK$1.028 to HK$6.939 per share, and the aggregate number of shares subject to the Scheme was adjusted from 19,200,00 to 20,614,736.

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

(b) Company

	Share premium account (note a) HK$'000	Share option reserve (note b) HK$'000	Accumulated (losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2007	147,490	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
Interim 2007 dividend declared	–	–	(3,509)	(3,509)
Proposed final 2007 dividend	–	–	(7,779)	(7,779)
Loss for the year	–	–	(552)	(552)
At 31 December 2007 and at 1 January 2008	222,731	10,279	(37,050)	195,960
Equity-settled share option expense	–	423	–	423
Interim 2008 dividend declared	–	–	(3,734)	(3,734)
Proposed final 2008 dividend	–	–	(4,668)	(4,668)
Profit for the year	–	–	50,480	50,480
At 31 December 2008	222,731	10,702	5,028	238,461

30. Reserves *(Continued)*

(b) Company *(Continued)*

Notes:

(a) Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, if authorised by the articles of association of the Company, share premium of the Company is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company is able to pay its debts as they fall due in the ordinary course of business.

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

31. 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 five years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**30,899**	26,896
In the second to fifth years, inclusive	**9,839**	21,809
	40,738	48,705

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
The construction of land and buildings	**8,671**	17,442
The purchase of property, plant and machinery	**–**	1,594
	8,671	19,036

33. Contingent Liabilities

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

34. Related Party Transactions

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

	Group	
	2008	2007
	HK$'000	HK$'000
Associates:		
Sale of products	**7,965**	7,474
Purchase of products	**84,269**	61,568

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

34. Related Party Transactions *(Continued)*

(b) Outstanding balance with an associate:

Details of the Group's loans to its associate and trade balance with its associate as at the balance sheet date are included in note 21 and note 24 to the financial statements.

(c) Compensation of key management personnel of the Group

	Group	
	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**9,900**	10,139
Equity-settled share option benefits	**423**	1,816
Post-employment benefit	**24**	24
Total compensation paid to key management personnel	**10,347**	11,979

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

35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	Group	
	2008	2007
	Loans and receivables	Loans and receivables
	HK$'000	HK$'000
Trade receivables	**66,544**	23,371
Financial assets included in prepayments, deposits and other receivables (note 22)	**54,241**	60,320
Cash and cash equivalents	**40,414**	51,447
	161,199	135,138

Financial liabilities

	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Trade payables	**86,494**	109,597
Financial liabilities included in other payables and accruals (note 25)	**76,367**	61,641
Interest-bearing bank borrowings	**39,342**	42,306
	202,203	213,544

35. Financial Instruments by Category *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

Financial assets

	Company	
	2008	2007
	HK$'000	HK$'000
Financial assets included in prepayments, deposits and other receivables (note 22)	**9,399**	9,199
Cash and cash equivalents	**50**	86
	9,249	9,285

Financial liabilities

	2008	2007
	HK$'000	HK$'000
Financial liabilities included in other payables and accruals (note 25)	**200**	200

36. 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 floating interest rates.

The interest-bearing borrowings with floating interest rates are denominated in the Hong Kong dollar. If there would be a general increase/decrease in the interest rate of bank 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$27,000 and HK$29,000 for the years ended 31 December 2008 and 2007 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 5.14% (2007: 4.24%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 100% (2007: 100%) of costs are denominated in the units' functional currencies. 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.

36. 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 United States dollar (US$) exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (Decrease) in US$ rate %	Increase/ (Decrease) in profit before tax HK$'000	Increase/ (Decrease) in owner's equity* HK$'000
2008			
If RMB weakens against US$	**5**	**675**	**–**
If RMB strengthens against US$	**(5)**	**(675)**	**–**
2007			
If RMB weakens against US$	5	302	–
If RMB strengthens against US$	(5)	(302)	–

* Excluding retained earnings.

(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.

36. Financial Risk Management Objectives and Policies *(Continued)*

(iii) Credit risk *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents 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 21 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. 73% of the Group's debts would mature in less than one year as at 31 December 2008 (2007: 73%) based on the carrying values of borrowings reflected in the financial statements.

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

36. Financial Risk Management Objectives and Policies *(Continued)*

(iv) Liquidity risk *(Continued)*

Group

	2008		
	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Interest-bearing bank loans	**28,697**	**10,645**	**39,342**
Trade payables	**86,494**	**–**	**86,494**
Other payables and accruals	**110,518**	**–**	**110,518**
	225,709	**10,645**	**236,354**

Group

	2007		
	Less than 1 year HK$'000	Over 1 year HK$'000	Total 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

Company

As at 31 December 2008, the contractual undiscounted payment included other payables of HK$200,000 (2007: HK$200,000). Balances were aged less than one year.

36. Financial Risk Management Objectives and Policies *(Continued)*

(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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

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

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

Group

	2008 **HK$'000**	2007 HK$'000
Interest-bearing bank loans	**39,342**	42,306
Trade payables	**86,494**	109,597
Other payables and accruals	**110,518**	90,469
Cash and cash equivalents	**(40,414)**	(51,447)
Net debt	**195,940**	190,925
Equity attributable to capital holders of the parent	**449,733**	533,829
Capital and net debt	**645,673**	724,754
Gearing ratio	**30%**	26%

37. Post Balance Sheet Events

(i) On 15 January 2009, the Company announced to raise approximately HK$40,900,000 after expenses by issuing 155,587,000 offer shares at the subscription price of HK$0.27 per offer share by way of the open offer on the basis of one offer share for every two existing shares held by the shareholders on 9 February 2009. The net proceeds of the open offer will be used for general working capital of the Group. The Company issued the shares and received the net proceeds in March 2009.

As a result of the open offer, pursuant to the terms of the Scheme, the exercise price of the options and the number of shares to be alloted and issued upon full exercise of the subscription rights attaching to the 19,200,000 outstanding options has been adjusted and announced on 2 March 2009.

(ii) On 19 March 2009, a total of 30,000,000 share options were granted to certain employees of the Company in respect of their services to the Group in the forthcoming year. These share options have an exercise price of HK$0.315 per share and exercise period ranging from 20 March 2010 to 19 March 2020. The price of the Company's share at the grant date was HK$0.315 per share. The Company had 50,614,736 share options outstanding under the scheme at the date of this report.

38. Comparative Amounts

During the year, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 April 2009.