INDEBTEDNESS

Borrowings and banking facilities

The following table sets out the Group's borrowings, banking facilities and the maturity profile as at the dates indicated:

	As at 31 December						As at 30 April	
	2006		2007		2008		2009	
		approximately		approximately		approximately		approximately
	RMB'000	HK$'000	RMB'000	HK$'000	RMB'000	HK$'000	RMB'000	HK$'000
Banking facilities								
– drawn	–	–	–	–	[40,000]	[45,357]	[58,000]	[65,768]
– undrawn	–	–	70,000	75,040	[30,000]	[34,018]	[12,000]	[13,607]
	–	–	70,000	75,040	[70,000]	[70,375]	[70,000]	[79,375]
Secured bank loans								
– maturing within one year	–	–	–	–	10,090	11,441	20,393	23,124
– maturing in the second year	–	–	–	–	10,090	11,441	13,169	[14,933]
– maturing in the third to fifth years, inclusive	–	–	–	–	18,458	20,931	19,713	22,353
amount outstanding	–	–	–	–	38,638	43,813	53,275	[60,410]
amount repaid	–	–	–	–	1,362	1,544	4,725	5,358
amount drawn	–	–	–	–	40,000	45,357	58,000	65,768

All the Group's bank loans are denominated in RMB. As at 30 April 2009, the Group's secured bank loans carried interest rates ranging from [5.1]% to [7.9]% per annum. During the Track Record Period, the interest capitalised in respect of the Group's secured bank loans amounted to nil, nil and HK$2.3 million respectively.

The banking facilities granted to the Group in 2007 were secured by (i) a legal charge over Longgang Land I with a site area of approximately 43,817 sq.m.; (ii) a letter of undertaking provided by Shenzhen Xingli to mortgage its factory premises (currently being constructed) on Longgang Land I upon the availability of ownership certificate on or before 31 December 2009; (iii) corporate guarantees provided by the Company and Hing Lee Furniture; and (iv) personal guarantees provided by the Founders. If the relevant ownership certificate of the factory premises on Longgang Land I cannot be obtained on or before 31 December 2009, the bank has the right to cancel the banking facilities and to demand full repayment of any outstanding sum owed to the bank without further notice. As at the Latest Practicable Date, the superstructure of the factory buildings and the dormitory buildings of the Shenzhen Xingli Production Base has been completed, and internal renovation and installation of building services are being carried out as scheduled. The construction of the Shenzhen Xingli Production Base is expected to be completed in June 2009. The Directors do not currently foresee any obstacle for the Group to obtain the relevant ownership certificate by the Group on or before 31 December 2009. [The relevant bank has agreed in principle that the personal guarantees as set out in (iv) above will be released upon [●].]

As at 30 April 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining information contained in this indebtedness statement, the Group had outstanding banking borrowings of RMB53.3 million (approximately HK$60.4 million).

Contingent liabilities

As at [30 April] 2009, the Group did not have any significant contingent liabilities.

Disclaimer

Save as disclosed herein and apart from any intra-group liabilities, the Group did not, as at the close of business on [30 April] 2009, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or other material contingent liabilities.

Save as disclosed herein, the Directors confirmed that there had been no material change in the indebtedness and contingent liabilities of the Group since [31 December 2008].

CAPITAL COMMITMENT

Capital commitments as at the dates indicated were as follows:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Contracted for but not provided for:			
– Construction of factory building	2,357	2,687	[38,921]
– Acquisition of property, plant and equipment	271	870	[79]
	2,628	3,557	[39,000]

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Authorised but not contracted			
– Construction of factory building	–	68,094	[–]
– Acquisition of property, plan and equipment	–	25,000	[25,000]
	–	93,094	[25,000]

The increase in capital commitment recorded as at 31 December 2007 was mainly attributable to the Group's expansion plan for constructing its new production facilities and acquisition of production equipment to be installed at Shenzhen Xingli Production Base.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information set out in the Accountants' Report in Appendix I to this document has been prepared in accordance with HKFRSs. The preparation of the financial information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The Group bases the assumptions and estimates on historical experience and on various other assumptions that it believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial information. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial information.

Revenue recognition

The Group recognises the revenue 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:

(i) sales of products to domestic distributors and overseas customers are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;

(ii) licensing income is recognised when the right to receive payment is established;

(iii) interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(iv) dividend income is recognised when the shareholders' right to receive payment is established.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, at the following rates per annum:

Leasehold improvements	20% or over the lease terms, whichever is shorter
Motor Vehicles	18% – 20%
Office equipment	10% – 20%
Plant and machinery	9% – 18%

The Group reviews the estimated useful lives and the estimated residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Such information may include a significant decrease in market value of the property, plant and equipment or a significant change in market conditions such that the carrying value of property, plant and equipment may not be recovered.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. No significant variance between actual result and the Group's estimation was found in the past. The estimate or assumption has not been changed in the past and such estimate or assumption is not likely to change in the future.

Impairment of trade receivables

Management regularly reviews the recoverability of trade and other receivables and amounts due from related parties. Allowance for these receivables is made based on the evaluation of collectability and on management's judgement by reference to the estimation of the future cash flows discounted at the effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required.

The amount of the provision for impairment is the difference between the asset's carrying amount and the present value of the management's estimated future cash flow discounted at the effective interest rate at the initial recognition of such asset. For the three years ended 31 December 2008, the Group recognised provision for impairment of HK$4,441,000, HK$5,826,257 and HK$2,080,363 respectively. The Group also recognised reversal of impairment of nil, HK$6,739,517 and HK$3,588,966 for the three years ended 31 December 2008 respectively. The basis for estimate or assumption has not been changed in the past and is reasonably not likely to change in the future.

In order to strengthen the internal control and financial management, the Group engaged the present chief financial officer in 2007. The Group has increased manpower and put significant efforts on debts collection in order to improve its cashflow position. Debts which impaired previously amounted to HK$6,739,517 and HK$3,588,966 were subsequently recovered in late 2007 and during 2008 respectively. Although significant reversal of impairment for doubtful debts were recorded during 2007 and 2008, the Group believes the current policy of impairment is effective, as all of the impaired debts subsequently recovered were over one year old at the time of making such impairment.

Impairment for inventories

Inventories are valued at the lower of cost, on the weighted average basis, and net realisable value after making due impairment for any obsolete or slow moving items. In the case of finished goods and work in progress, production costs include direct materials, direct labour, sub-contracting charges and, where applicable, production overheads. Net realisable value is determined with reference to estimated selling prices less all further costs to be incurred in selling and distribution.

No significant variance between the final realisable value and the Group's provision for impairment of inventories was found in the past. The basis for estimate or assumption has not been changed in the past and is reasonably not likely to change in the future.

Income taxes and deferred taxation

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such difference will impact the income tax and deferred tax provision in the period when such determination is made.

The subsidiaries of the Company in the PRC are subject to enterprise income tax in the PRC. Pursuant to the New EIT Law, which became effective on 1 January 2008, the enterprise income tax rates for both domestic and foreign-invested enterprises have been unified at the rate of 25%. Enterprises that are entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to 1 January 2008 may continue to enjoy such treatment until such fixed term expires. Accordingly, after the applicable transition period, the subsidiaries of the Company in the PRC may no longer be subjected to preferential tax rates and/or tax exemption and the tax rate applied to all subsidiaries established in the PRC will be increased to 25%. Since the deferred income tax assets and liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Company's subsidiaries located in the PRC. The Company will continue to evaluate the impact of the New EIT Law on its operations and financial condition.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

No significant variance between the final tax outcome and the Group's provision for taxation was found in the past. The basis for estimate or assumption has not been changed in the past and such estimate or assumption is reasonably not likely to change in the future.

Impairment of non-financial assets

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

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

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 an 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) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Financial instruments

Financial assets is recognised in the balance sheet when a group entity becomes a party to be contractual provisions of the instrument. Financial assets is initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) is added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group's financial assets are classified into one of the three categories, namely financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future; or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in the income statement does not include any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, time deposit held over 3 months, restricted bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments of which interest income is included in net gains or losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Group designated listed equities as available-for-sales financial assets.

At each balance sheet date subsequent to the initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains or losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses which are recognised in the income statement) are recognised in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is taken to the income statement.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indications of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its costs is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payment in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

Impairment losses on available-for-sale equity investments will not be reversed in the income statement in subsequent periods. Any increase in the fair value of available-for-sale equity-investments subsequent to an impairment loss being recognized is credited directly to equity.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition

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

TRADING RECORD

The following is a summary of the audited consolidated results of the Group for the Track Record Period. This summary is extracted from and should be read in conjunction with the accountants' report set out in Appendix I to this document.

	For the year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	369,626	492,669	534,346
Cost of sales	(299,526)	(396,438)	(433,344)
Gross profit	70,100	96,231	101,002
Other income	2,304	1,962	1,989
Selling and distribution expenses	(18,441)	(27,453)	(35,533)
Administrative expenses	(22,594)	(28,490)	(33,348)
Profit from operating activities	31,369	42,250	34,110
Finance costs	(481)	(18)	(70)
Profit before taxation	30,888	42,232	34,040
Taxation	(2,137)	(1,803)	(3,251)
Profit for the year	28,751	40,429	30,789
Attributable to:			
Equity holders of the Company	28,103	40,192	30,746
Minority interests	648	237	43
Profit for the year	28,751	40,429	30,789
Dividends	–	17,276	3,971

PRINCIPAL INCOME STATEMENT COMPONENTS

The following is an overview of the major revenue and expense items contributing to the audited trading record of the Group during the Track Record Period:

Turnover

Turnover represents gross invoiced sales, net of any returns, trade discounts and value added tax, together with licensing fees. The turnover of the Group during the Track Record Period was generated from the domestic sales of furniture products to its distributors in the PRC, export sales and licensing fees through licensing arrangements with third party licensees.

The following table shows the breakdown of the turnover of the Group's branded and unbranded products by business activities during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Domestic sales						
Johnston	74,921	*20.3*	106,120	*21.5*	128,588	*24.1*
PZ-King	52,764	*14.3*	48,976	*9.9*	54,273	*10.2*
Mandarin	20,745	*5.6*	55,926	*11.4*	51,844	*9.7*
New Nobleman	–	–	–	–	19,382	*3.6*
	148,430	***40.2***	**211,022**	***42.8***	**254,087**	***47.6***
Exports						
Branded						
– Johnston	–	–	36,336	*7.4*	49,101	*9.2*
– PZ-King	45,959	*12.4*	38,003	*7.7*	34,583	*6.5*
Mattress	50,393	*13.6*	58,748	*11.9*	51,665	*9.7*
Unbranded	97,445	*26.4*	120,651	*24.5*	125,963	*23.5*
	193,797	***52.4***	**253,738**	***51.5***	**261,312**	***48.9***
Licensing fees						
Oriant	19,754	*5.3*	23,829	*4.9*	17,546	*3.3*
New Nobleman	–	–	3,141	*0.6*	–	–
Classic Sanroy	1,347	*0.4*	939	*0.2*	1,401	*0.2*
Mandarin	6,298	*1.7*	–	–	–	–
	27,399	***7.4***	**27,909**	***5.7***	**18,947**	***3.5***
Total	**369,626**	***100.0***	**492,669**	***100.0***	**534,346**	***100.0***

(i) Domestic sales

In 2006, in view of the continuous growth of the PRC economy and surging income levels, the Group began to place more emphasis in terms of market promotion and product designs on the classic furniture series under the brand name of "Johnston" targeting at high price point consumers. Moreover, in 2007, the Group launched an advertising campaign through various media such as the nationwide television network China Central Television and billboards to enhance the general public's recognition of the "Johnston" brand. As a result, the domestic sales of "Johnston" products recorded continuous growth of approximately 41.6% and 21.2% for the two years ended 31 December 2008 respectively.

In 2006, the "Mandarin" brand of Italian-styled modern furniture which was initially licensed to third party furniture manufacturers was resumed by the Group, since the Group saw strong growing market potential for Italian-styled modern furniture in the domestic market. In July 2006, the Group ceased the relevant licensing arrangements, and began to shift marketing efforts from other modern furniture product lines to the "Mandarin" products. New designs under this series were launched in 2007. As a result, the turnover derived from the domestic sales of "Mandarin" products recorded substantial increase of approximately 170% from 2006 to 2007, whilst the sales from "PZ-King" products decreased by 7.2% in the same period. In 2008, the Group launched a new product series, namely "K-series", under the brand name of "PZ-King", which enabled the Group to record an increase of approximately 10.8% in the sales of "PZ-King " products for the year. However, the sales of "Mandarin" products experienced a slight drop of approximately 7.3% for the year.

"New Nobleman" is the Group's brand name used for marketing Spanish-styled classical furniture. Initially, the Group commenced the licensing arrangements with respect to the use of this brand name in January 2007. As the Group intended to strengthen the management of the "New Nobleman" brand name, it did not renew the relevant licence agreements upon their expiry at the end of 2007. In 2008, the Group started to manufacture "New Nobleman" products for sale in the domestic market and recorded turnover of approximately HK$19.4 million for the year.

(ii) Exports

In 2006, the Group was mainly focused on marketing its modern furniture series under the brand name of "PZ-King", mattress and unbranded products in the export markets. In 2007, as the Directors believed that the Group had established its overseas client base for the modern furniture series, it decided to diversify its product offerings in the export markets and introduced new designs of products under its classic furniture series, "Johnston", to meet the preferences of its overseas customers. In March 2007, the Group participated in 中國廣州國際傢俱博覽會 (China International Furniture Fair (Guangzhou)) to promote its "Johnston" furniture products and received favourable responses from its overseas customers who then placed orders with the Group. With the delivery of the "Johnston" products in the second half of 2007, the Group recorded turnover of approximately HK$36.3 million in relation to "Johnston" products for the year ended 31 December 2007, representing about 14.3% of the Group's export sales for that year. [During the year ended 31 December 2008, turnover derived from the sale of "Johnston" products recorded an increase of approximately 35.1% as compared to 2007.] [However, in 2007 and 2008, export sales of "PZ-King" products decreased by about 17.3% and 9.0% respectively, as some of the overseas customers shifted to order the Group's unbranded products.]

As the Group changed the emphasis of its mattress business from domestic sale to export in view of the higher profit margin in the overseas markets, the Group stopped selling its mattress products in the domestic market since the beginning of 2006 and the export sales of the Group's mattress products recorded sales of approximately HK$50.4 million for the year ended 31 December 2006. In 2007, sales of mattresses rose by approximately 16.6% as a result of the increase in demand from its overseas customers. [During the year ended 31 December 2008, turnover derived from the sale of mattress products dropped by approximately 12.1%, since some of the Group's mattress customers reduced order size in response to the price increase imposed by the Group.]

By participating in domestic and international trade fairs and exhibitions, the Group was able to gain recognition of its production capabilities and to establish relationships with overseas furniture suppliers and customers. In 2006, the Group secured sizable orders from certain overseas customers for unbranded products and recorded sales of approximately HK$97.4 million for the year. [For the two years ended 31 December 2008, turnover derived from the sale of unbranded products grew steadily by 23.8% and 4.4% respectively primarily due to the increase in demand from the overseas customers.]

The following table sets out the breakdown of unbranded products based on the Group's own designs and the designs provided by the overseas customers:

	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Breakdown of unbranded products			
– own designed products	15,052	38,013	41,235
– products designed by overseas customers	82,393	82,638	84,728
	97,445	120,651	125,963

The Directors consider the export business will continue to be a major driving force of the Group's future growth. The Group will continue to devote sufficient resources in expanding its export business through participating major furniture trade fairs and exhibitions in overseas markets and [making regular marketing visits to overseas customers.]

(iii) Licensing fees

The Group derives licensing fees from granting non-exclusive rights to third-party licensees for use of its own brands and product designs. The licensing fees are calculated based on a certain percentage of the invoiced value of the furniture products manufactured under the licence, at which the licensees sell to their customers. The unit prices for calculating the invoiced value of the furniture products are predetermined by the Group and the licensees after arm's length negotiation and taking into account the costs incurred by the Group in product design and brand building as well as the potential production costs.

During the Track Record Period, the licensing fees payable by the licensees to the Group were subject to 10% withholding tax in the PRC. However, it is a term of the licence agreements that the licensing fees receivable by the Group should be net of any tax and the licensees are responsible to pay any tax imposed on the licensing fees payable by the licensees to the Group. As such, the licensing fees as agreed between the Group and the licensees during the Track Record Period were on a net-of-tax basis and the licensees were responsible to pay the relevant withholding tax separately to the tax authorities at their own costs.

In 2006, about 72% of the Group's licensing fees was derived from the licensing arrangements with respect to the use of the brand name "Oriant" and its product designs, which are mainly catered for young aged middle price point customers. In 2007, the Group launched an advertising campaign through various media such as furniture magazines and billboards to enhance consumers' recognition of the "Oriant" brand and the licensing fees derived from the brand "Oriant" recorded growth of approximately 20.6% in that year. [However, for the year ended 31 December 2008, the licensing fees earned from the brand "Oriant" decreased by approximately 26.4% as compared to that of the previous year. Such decrease in 2008 was mainly due to a combination of factors including the snow storms and the Sichuan earthquake in the first half of the year, and the lack of new product launch under the licensed brand names in the second half of the year, which adversely affected the business of the licensees.

In 2006, the licensing fees earned from the brand "Mandarin" accounted for about 23.0% of the Group's total licensing fees. In July 2006, the Group ceased the "Mandarin" licensing arrangements as mutually agreed between the Group and the respective licensees and resumed the brand for its own manufacturing and marketing, as the Group saw strong growing market potential for Italian-styled modern furniture in the domestic market. The Group started to manufacture products under the brand "Mandarin" for sale in the domestic market in the second half of 2006.

The Group commenced the licensing arrangement with respect to the use of its "New Nobleman" brand name in January 2007 and earned licensing fees of approximately HK$3.1 million during the year. In order to strengthen the management of its "New Nobleman" brand, the Group did not renew the relevant licence agreements upon their expiry at the end of 2007. In 2008, the Group started to manufacture products under the brand "New Nobleman" for sale in the domestic market.

The brand "Classic Sanroy" was used for marketing the products catered for high price point customers who demand luxurious furniture products. The relevant licensing fees derived from the brand name "Classic Sanroy" remained quite stable at around 0.2% to 0.4% of the Group's turnover throughout the Track Record Period.

The Directors believe that, with the formal operation of the Shenzhen Xingli Production Base expected to commence in the third quarter of 2009, the Group would certainly consider to self-manufacture the new products designed by the Group in the future, rather than licensing them to third parties. Therefore, should the Group's domestic and export business continue to grow in the future, the licensing business would probably account for a smaller portion of the Group's turnover.

Set out below is a table showing the breakdown of the Group's turnover by geographical locations during the Track Record Period:

	For the year ended 31 December					
	2006		**2007**		**2008**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
The PRC	175,829	*47.6*	238,931	*48.5*	273,034	*51.1*
Asia *(Note 1)*	127,850	*34.6*	172,942	*35.1*	176,896	*33.1*
Europe *(Note 2)*	24,817	*6.7*	32,287	*6.6*	35,370	*6.6*
Others *(Note 3)*	41,130	*11.1*	48,509	*9.8*	49,046	*9.2*
Total	**369,626**	***100.0***	**492,669**	***100.0***	**534,346**	***100.0***

Notes:

1. Asia mainly represented Japan, Taiwan, Middle East and Southeast Asia.

2. Europe mainly represented Sweden, Italy, Spain and Germany.

3. Others mainly represented the United States, Canada, Angola and Ivory Coast.

The PRC domestic market continued to gain importance in the Group's furniture business during the Track Record Period, accounting for over 50% of the total turnover for the year ended 31 December 2008. In the Group's export operation, the Asian region contributed approximately one third of the total turnover to the Group for the three years ended 31 December 2008. Customers in Japan and Taiwan were the major buyers of the Group's furniture products in 2006 and 2007 whilst customers from the Middle East and India were seen to have increased their purchases in 2008. The European region, covering customers in over 17 countries, accounted for approximately 6% of the Group's turnover during the Track Record Period. The major European customers were mainly located in Sweden, Italy, Spain and Germany.

The "Others" region mainly covers customers in the United States, Canada, Angola and Ivory Coast in Africa. During the Track Record Period, the turnover contributions from customers in the United States amounted to approximately HK$23.3 million, HK$35.0 million and HK$31.1 million respectively. The customers in Africa increased their purchases of the Group's products in 2008 as compared to the previous year, which basically compensated the reduction in demands from the customers in the United States.

Cost of sales

Cost of sales primarily include raw material costs, labour costs, depreciation and amortisation expenses, rental expenses, other production overheads and outsourcing costs.

The cost of raw materials was the main component of the Group's cost of sales. Raw materials used in the production of the Group's home furniture products mainly include MDF board, ironware and paint.

Labour costs are mainly salaries, wages and other benefits for the Group's direct labours.

Outsourcing costs refer to the costs of outsourcing production of furniture products to contract manufacturers.

The following table sets out the breakdown of the Group's cost of sales during the Track Record Period:

	For the year ended 31 December					
	2006		**2007**		**2008**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Raw materials						
MDF board	57,055	*19.1*	84,496	*21.3*	83,686	*19.3*
Ironware	25,206	*8.4*	35,053	*8.8*	36,195	*8.4*
Paint	23,328	*7.8*	29,345	*7.4*	28,323	*6.5*
Sponge	14,676	*4.9*	17,155	*4.3*	13,019	*3.0*
Metal spring	10,751	*3.6*	12,966	*3.3*	11,642	*2.7*
Fabric	8,822	*2.9*	11,514	*2.9*	9,091	*2.1*
Packaging materials	9,065	*3.0*	11,259	*2.8*	9,254	*2.1*
Glass	6,470	*2.2*	7,049	*1.8*	7,285	*1.7*
Others	2,150	*0.7*	1,815	*0.5*	752	*0.2*
Sub-total	**157,523**	***52.6***	**210,652**	***53.1***	**199,247**	***46.0***
Direct labour	15,084	*5.0*	24,097	*6.1*	29,063	*6.7*
Overheads	19,237	*6.4*	19,728	*5.0*	24,316	*5.6*
Outsourcing	107,682	*36.0*	141,961	*35.8*	180,718	*41.7*
Cost of sales	**299,526**	***100.00***	**396,438**	***100.00***	**433,344**	***100.00***

During the Track Record Period, the increase in cost of sales was basically in line with the increase in turnover for the domestic and export sales. The outsourcing cost was the largest component, accounting for over one third of the Group's cost of sales. For the year ended 31 December 2008, the outsourcing cost accounted for approximately 41.7% of the cost of sales, as compared to approximately 36% for the prior two years. The increase in the outsourcing cost was mainly due to the fact that the production of the "K-series" product under the brand name of "PZ-King" was outsourced to contract manufacturers due to lack of the required production equipment at Shenzhen Xingli to undertake the production. The related outsourcing cost for "K-series" products amounted to approximately HK$19.0 million. Due to the increase in outsourcing, the costs of raw materials used for self-manufacturing only accounted for approximately 46% of the cost of sales for the year ended 31 December 2008, as compared to approximately 53% for the prior two years.

Gross profit and gross profit margin

The following table shows the breakdown of the Group's gross profit and gross profit margin by business activities during the Track Record Period:

	For the year ended 31 December					
	2006		2007		2008	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Domestic sales	23,350	*15.7*	41,219	*19.5*	54,501	*21.4*
Exports	19,351	*10.0*	27,103	*10.7*	27,553	*10.5*
Licensing fees	27,399	*100.0*	27,909	*100.0*	18,948	*100.0*
Total	**70,100**	***19.0***	**96,231**	***19.5***	**101,002**	***18.9***

During the Track Record Period, the Group's domestic sales recorded gross profit margin of approximately 15.7%, 19.5% and 21.4% respectively. The increase in the gross profit margin from approximately 15.7% in 2006 to approximately 19.5% in 2007 was mainly due to the benefits of economy of scale resulted from the Group's ability to maintain the factory overheads stable whilst increasing the production volume. In 2008, the Group recorded another increase in gross profit margin from approximately 19.5% in 2007 to approximately 21.4%. The increase in the gross profit margin was mainly due to the general decrease in the prices for certain raw materials, such as MDF boards and paints, used in manufacturing furniture products.

As for export sales, the gross profit margin has been rather stable, ranging from approximately from 10% to 10.7% during the Track Record Period. The Group and its overseas customers basically adopted a cost plus approach in fixing the product pricing for export sales. The Group did not incur any direct costs in earning its licensing revenue. The related staff costs for product design and quality control for the licensing business were grouped under selling and distribution expenses. Therefore, the gross profit margin was recorded as 100% throughout the Track Record Period.

Other revenue

Other revenue mainly relates to exchange gain, interest income and sundry income which primarily derived from sales of scraps.

Selling and distribution expenses

The following table sets out the breakdown of the Group's selling and distribution expenses during the Track Record Period:

	For the year ended 31 December		
	2006	2007	2008
	Total	Total	Total
	HK$'000	*HK$'000*	*HK$'000*
Selling and distribution expenses			
Advertising	850	6,811	5,460
Impairments for trade receivables	4,441	(913)	(1,590)
Design fees	779	755	2,544
Entertainment	154	461	851
Exhibition fees	83	5,893	10,344
Export expenses	528	2,526	1,795
Office expenses	589	1,007	2,304
Rent	1,112	1,323	1,870
Staff costs	2,026	3,663	3,833
Trademark & patents written off	2,742	–	–
Transportation	3,522	3,697	4,983
Travelling expenses	501	1,293	1,608
Other expenses	1,114	937	1,450
	18,441	**27,453**	**35,533**

For the year ended 31 December 2006, the Group recorded selling and distribution expenses of approximately HK$18.4 million, which mainly included impairment of trade receivables of approximately HK$4.4 million, staff costs of approximately HK$2.0 million, trademark and patents written off of approximately HK$2.7 million and transportation expenses of approximately HK$3.5 million. In order to take over the business of Shenzhen Dahao subsequent to its dissolution, the Group, in addition to the acquisition of the production facilities from Shenzhen Dahao, paid approximately HK$7.8 million to Shenzhen Dahao prior to dissolution for taking over the trademark and patents owned by Shenzhen Dahao (which was valued by an independent appraiser at approximately HK$7.8 million). Since the Group had 65% interest in Shenzhen Dahao prior to its dissolution, and was therefore entitled to be distributed 65% of the proceeds of the consideration for such trademarks and patents upon its dissolutions, the actual cost to the Group in acquiring the said trademarks and patents was equivalent to approximately HK$2.7 million (representing the remaining 35% of the proceeds of the consideration for such trademarks and patents distributable to the minority shareholders of Shenzhen Dahao upon its dissolution). In accordance with its accounting policy relating to treatment of intellectual properties, the Group fully wrote off such trademark and patents costs of approximately HK$2.7 million in 2006.

For the year ended 31 December 2007, the Group's selling and distribution expenses amounted to approximately HK$27.5 million, representing an increase of approximately 48.9% over the previous year. Such increase was mainly due to the substantial expenditure incurred for broadcasting TV advertisements on the Group's product on the CCTV and participating in various exhibitions and trade shows in the PRC amounting to approximately [HK$6.8] million and HK$6.0 million respectively during the year.

For the year ended 31 December 2008, the Group recorded selling and distribution expenses of approximately HK$35.5 million, representing an increase of approximately 29.4% over the previous year. The Group incurred approximately HK$10.3 million in participating exhibitions and trade shows in Milan, Italy, Shanghai, Guangzhou and Shenzhen in the PRC during the year. Design fees increased by approximately HK$1.8 million, as the Group engaged May Day Design, an independent design house based in Milan, Italy to design and develop a brand new product line under the brand "CHINTAG". Office expenses also increased by approximately HK$1.3 million attributable to the expenditure incurred in renovating the Group's existing showrooms and setting up two additional furniture display showrooms within the Shenzhen Xingli's office premises during the year.

Administrative expenses

The following table sets out the breakdown of the Group's administrative expenses during the Track Record Period:

	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Administrative Expenses			
Audit fee	394	729	1,200
Bank charge	418	549	746
Change in fair value of equity investments	–	–	3,688
Depreciation	387	805	1,484
Director's remuneration	3,138	7,642	5,448
Entertainment	88	698	1,160
Insurance	90	190	229
Legal & professional fees	2,530	3,097	1,263
Motor expense	451	1,340	1,660
Office expenses	54	461	1,049
Rent and management fees	481	938	447
Staff costs	3,457	6,989	11,029
Utilities and sundries	1,272	3,690	2,325
Bad debts (non-trading) written off	8,885	–	–
Others	849	1,362	1,620
	22,594	**28,490**	**33,348**

For the year ended 31 December 2006, the Group's administrative expenses amounted to approximately HK$22.6 million, which mainly included director's remuneration of approximately HK$3.1 million, legal and professional fees of approximately HK$2.5 million, staff costs of approximately HK$3.6 million and bad debts (non-trading) written off of approximately HK$8.8 million. Immediately prior to the dissolution of Shenzhen Dahao in December 2006, Dahao Furniture, an ex-shareholder of Shenzhen Dahao, was indebted to the Group in the amount of approximately HK$3.7 million, and to Shenzhen Dahao in the amount of approximately HK$7.8 million. In view of the financial difficulties encountered by Dahao Furniture and the pending dissolution of Shenzhen Dahao, the Directors considered that the possibility of recovering the above receivables from Dahao Furniture was remote. Therefore, the Group wrote off such receivables in the amount of approximately HK$8.8 million, comprising approximately HK$3.7 million receivable due directly from Dahao Furniture to the Group and approximately HK$5.1 million with respect to the Group 65% share (representing its equity interest) in Shenzhen Dahao's approximately HK$7.8 million receivable due from Dahao Furniture.

For the year ended 31 December 2007, the Group recorded administrative expenses amounting to approximately HK$28.5 million, representing an increase of approximately 26.1% as compared to the previous year. Such increase was mainly attributable to the rises in directors' remuneration and the staff costs. The directors' remunerations increased from approximately HK$3.1 million in 2006 to approximately HK$7.6 million in 2007 was mainly because of a performance bonus of HK$2.0 million granted to the directors of the Company and a share based compensation of approximately HK$1.1 million relating to the share options granted to the directors. The increase in staff costs was also due to the share based compensation of approximately HK$1.3 million relating to the share options granted to the members of the senior management as well as the annual salary increments of approximately 10% and the increase in head counts to handle the continuous growth in domestic and export sales recorded during the year.

For the year ended 31 December 2008, the Group's administrative expenses rose to HK$33.4 million, representing an increase of approximately 17.1% over the previous year. Such increase was mainly due to an impairment for the equity investments of approximately HK$3.7 million as well as the rise in staff costs of approximately HK$4.0 million resulting from (i) the newly set up of a staff canteen which incurred approximately HK$1.7 million operating costs in the year, (ii) the annual salary increments of approximately 10%, and (iii) the increase in head counts to manage the construction of the Shenzhen Xingli Production Base. During the year, the directors' remunerations decreased by approximately HK$2.2 million as a result of no performance bonus granted.

Finance costs

Finance costs mainly represent bank charges and bank interest.

Taxation

Pursuant to the income tax laws and regulations in Bermuda and the BVI, the Group is not subject to income tax in Bermuda and the BVI. The provision for Hong Kong profits tax for each of the years ended 2006, 2007 and 2008 was calculated at 17.5%, 17.5% and [16.5]% of the estimated assessable profits for each of the respective years. Hing Lee (China) and Hing Lee Furniture which carried on business in Hong Kong, are subject to Hong Kong profits tax. The subsidiaries of the Company in the PRC are subject to PRC enterprise income tax with details as set out below:

	Applicable PRC enterprise income tax rate For the year ended 31 December		
	2006	**2007**	**2008**
Dongguan Super Furniture *(Note 1)*	Fully exempted	Fully exempted	[12.5%]
Shenzhen Xingli Zundian *(Note 2)*	Fully exempted	7.5%	[9%]
Shenzhen Xingli *(Note 3)*	7.5%	7.5%	[18%]

Notes:

1. Dongguan Super Furniture was incorporated in October 2005 and did not generate any assessable profits in 2005 and therefore it was not required to pay any PRC enterprise income tax for the year of 2005. Dongguan Super Furniture was entitled to full exemption from the PRC enterprise income tax in 2006 and 2007, being its first two profitable years, and a 50% tax reduction of the PRC enterprise income tax rate of 25% in 2008 under the New EIT Law till 2010.

2. Shenzhen Xingli Zundian was exempted from the PRC enterprise income tax for its first two profitable years, commencing from 1 January 2005, and thereafter was entitled to a 50% tax reduction in the PRC enterprise income tax for the subsequent three consecutive years from 1 January 2007 to 31 December 2009. Shenzhen Xingli Zundian was entitled to a 50% tax reduction in the PRC enterprise income tax rate of 15% for the year 2007. Under the New EIT Law and 企業所得稅納稅須知 (Notice on payment of Enterprise Income Tax), Shenzhen Xingli Zundian is entitled to a 50% reduction of the PRC enterprise income tax rate of 18% and 20% for the two years from 2008 to 2009 respectively.

3. Shenzhen Xingli was exempted from the PRC enterprise income tax for its first two profitable years, commencing from 1 January 2003, and thereafter was entitled to a 50% tax reduction in the PRC enterprise income tax rate of 15% for the subsequent three consecutive years from 1 January 2005 to 31 December 2007. Under the New EIT Law and 企業所得稅納稅須知 (Notice on payment of Enterprise Income Tax), Shenzhen Xingli was subject to the PRC enterprise income tax rate of 18% in 2008.

Pursuant to the New EIT Law, the enterprise income tax rates for both domestic and foreign-invested enterprises have been unified at 25%. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to 1 January 2008 may continue to enjoy such treatment until such fixed term expires. Accordingly, after the applicable transition period, the subsidiaries of the Company in the PRC may no longer be subject to preferential tax rates and/ or tax exemptions and the tax rate applied to all subsidiaries established in the PRC will be increased to 25%. [The Directors confirmed that, save for the failure of Hing Lee Furniture to notify the IRD of its chargeability to tax within the prescribed time limit for the years of assessment for 2005/2006, 2006/2007 and 2007/2008, the Group had made all the required tax filings under the relevant tax laws and regulations during the Track Record Period, and that, save for the tax assessments issued by IRD in relation to final tax payable by Hing Lee Furniture for 2005/2006 to 2007/2008, the Group had not received any notice in relation to tax penalties, fines or disputes up to the Latest Practicable Date].

The failure of Hing Lee Furniture to notify the IRD of its chargeability to tax within the prescribed time limit for 2005/2006 to 2007/2008 has rendered the company liable to level 3 fine (i.e. HK$10,000) and a further fine of treble the amount of tax which has been undercharged in consequence of such failure. The amount of undercharged tax which was assessed by the IRD in the amount of HK$2,629,352, was fully settled by the Group on 3 March 2009. Hing Lee Furniture was advised by the tax accountant that as it made voluntary disclosure to the IRD, the penalty which may be imposed would likely be 45% of the tax undercharged. For prudence sake, based on the recommendation of the tax accountant, a provision for tax undercharged penalty of HK$2,660,752, representing around 100% of the tax undercharged amount was made in the accounts.

Profit for the year and the net margin

The Group's profit for the year increased from approximately HK$28.8 million for 2006 to approximately HK$40.4 million for 2007 but then decreased to approximately HK$30.8 million for 2008, despite the fact that its total turnover recorded continuous growth during the Track Record Period. The net profit margin increased from approximately 7.8% for 2006 to approximately 8.2% for 2007 but then diminished to approximately 5.8% for 2008.

For the year ended 31 December 2007, the increases in the profit for the year and the net margin were mainly attributable to (i) the higher gross profit margin recorded by the Group, since the Group was able to achieve the benefit of economies of scale as the production volume and turnover grew, (ii) lower finance costs incurred, as the bank loan was fully repaid during the year of 2006, and (iii) a lower effective tax rate of approximately 4.3% against approximately 6.9% for 2006.

Notwithstanding its success in expanding the turnover, the Group was unable to maintain the profit growth for the year ended 31 December 2008. The Group experienced a decrease of approximately 23.8% in its profit for the year and a drop in net profit margin from approximately 8.2% for 2007 to approximately 5.8% for 2008, while the overall turnover recorded a growth of approximately 8.5%. The Directors attributed the Group's profit decline and reduction in the net profit margin for 2008 primarily to (i) the Group's substantial increases in selling and distribution expenses and administrative expenses as explained above, (ii) the decrease in licensing fees earned for 2008 by approximately HK$9.0 million, and (iii) a higher effective tax rate of approximately 9.6% for 2008 against approximately 4.3% for 2007, as the tax exemptions/reductions of some of the Company's subsidiaries in the PRC expired by the end of 2007. Please refer to the sub-paragraph headed "Factors affecting the Group's results of operations – Taxation" in the paragraph headed "Management discussion and analysis of the results of the Group" in this section below for more information about the changes in the Group's effective tax rate during the Track Record Period.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group for the Track Record Period, all of which is set forth in the accountants' report set out in Appendix I to this document.

Factors affecting the Group's results of operations

The Group's results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below.

General economic conditions, levels of disposable income and consumer spending in the PRC and overseas markets

The Group generated approximately half of its turnover from the PRC and half from the overseas markets during the Track Record Period. The general economic conditions, the levels of disposable income and consumer spending in the PRC and in the overseas countries where the Group's customers are located, therefore, have a substantial impact on the Group's results of operations and financial condition. The PRC has experienced significant economic growth in recent years. The Directors believe that the increase in the purchasing power of the PRC residents has continued to drive sentiment towards the purchase of branded home products, which has positively affected the Group's results of operations. However, the recent financial turmoil and credit crunch have adversely affected the global economy and caused economic downturn as well as decrease in consumer spending in most countries. As a consequence, it is expected that households may reduce their spending on purchasing durable goods including furniture products. In the PRC, the sluggish property market and the slowdown in the economy may also negatively impact the demand for furniture products in 2009. Should the economic downturn and decrease in consumer spending continue, the Group's business, financial condition and results of operations may be adversely affected.

Market competition

The global furniture product trading value rose from US$45.0 billion in 1998 to US$[107.0] billion in 2007, representing a CAGR of approximately [10.1]%. According to the World Furniture Outlook 2009 published by Csil Milano, the PRC has become the largest furniture manufacturer in terms of production in the world and had accounted for 20% of the global furniture production, representing approximately US$70.0 billion in [2007]. With regard to the domestic market, the PRC furniture industry has experienced rapid growth during the years from 1998 to 2007. According to the aforesaid report, the total furniture consumption in the PRC increased from approximately US$7.53 billion in 1998 to approximately US$50.34 billion in 2007, representing a CAGR of approximately [23.5]%. Despite the fact that the trading volume in the furniture market continues to grow rapidly, the Group faces strong competition from a number of small to medium-sized industry players. According to the CNFA, there are approximately 50,000 enterprises engaged in the furniture industry in the PRC comprising mostly small to medium-sized enterprises. In light of the fragmented nature of the industry, there are no brands dominating the market. The Group differentiates itself from its competitors through its comprehensive range of products, high quality products, strong product development capability and branding in order to attract demands from end consumers and to maintain its profitability. For further information regarding the global furniture industry, please refer to the section headed "Industry overview" in this document.

During the Track Record Period, the Group had been able to record growth in the gross profit margin from 18.7% to 21.4% for its domestic sales whilst maintaining the gross profit margin at around 10% to 10.7% for its export sales. The Directors consider whilst the competition is strong in the PRC furniture market, there should still be opportunities for furniture manufacturers to continue to grow.

Ability to adjust to changes in the market trends

According to data published by the National Bureau of Statistics of China, from 2000 to 2007, the middle and high income groups have experienced higher growth rates in disposable household income. From 2000 to 2007, the CAGR of per capita disposable household income of low, middle, upper middle and high income groups of the PRC was [8.7]%, [10.7]%, [11.8]% and [13.0]% respectively. According to the Hong Kong Trade Development Council, the middle class group of the PRC has shown increasing demand for trendy and fashionable furniture. In order to capture the opportunities presented by this industry trend, the Group positions its products to target at the mid to high-price points of the PRC's growing middle class, focusing on various consumer age segments. The Group's classic furniture products, in particular, products under the brand name "Johnston", are styled with fine craftsmanship and decorative details targeting at the middle and high-income group consumers with higher spending power who demand luxurious furniture products. Moreover, the Group's newly developed furniture product line under the brand "CHINATAG" with the core product development theme of "contemporary Italian design with traditional Chinese furniture style" is also targeted at mature and high price point consumers. The Group's modern furniture series are marketed as [simple, trendy and functional] targeting at [younger] middle class consumers who are after trendy home products. The Group believes that its product positioning enables it to capture the high potential market segments with growing demand. During the Track Record Period, sales contributed from the PRC market increased from HK$[175.8 million] in 2006 to HK$[273.0 million] in 2008. The Group's ability to continue to adjust to the changes in the market trends and to attract consumers by offering fashionable, high quality products and new brands that are differentiated from those of its competitors in the future will therefore have a direct impact on the pricing and sales of its products as well as its operating performance.

Ability to expand and optimise its distribution network

As at the Latest Practicable Date, the Group contracted with [511] distributors who operated over 600 approved shops in the PRC and established a strong overseas client base, mainly in Asia and Europe to market its products. The Directors attributed the Group's continuous growth in its domestic and export sales to its success in developing its network of distributors and its ability to open up new overseas markets. The following table sets out the total number of distributors and approved shops in the PRC and the number of new overseas customers and overseas markets opened up during the Track Record Period:

	As at 31 December		
	2006	**2007**	**2008**
Number of distributors	348	435	471
Number of approved shops	380	482	565
Number of new overseas markets	21	19	2
Number of overseas customers	172	147	97
Number of new overseas customers	140	92	19

The Group's results of operations will be affected by its ability to identify capable distributors with whom the Group can work closely to carry out its marketing programmes and to promote its products in different regions in the PRC as well as to capitalise business opportunities with various overseas customers.

Cost of raw materials for the Group's products

The principal types of raw materials used in the production of the Group's home furniture products are MDF board, ironware, and paint. For the three years ended 31 December 2008, costs of raw materials of the Group accounted for approximately [52.6]%, [53.1]% and [46.0]% of the costs of sales respectively. It is important for the Group to obtain from its suppliers sufficient quantities of good quality raw materials in a timely manner and at competitive prices for its production. The prices of some of the key raw materials of the Group are affected by factors such as fluctuations in commodity prices, purchase volume and availability of substitute materials. The key raw material is MDF board and the two types of frequently used MDF board, namely 18 mm MDF board and 25 mm MDF board, recorded 9.5% and 11.6% increases in the average purchase prices respectively in 2007, and 4.8% and 4.3% decreases in the average prices respectively in 2008. The Group procures raw materials based on production requirements and maintains one-month inventory level. The Group's procurement department monitors the market prices of major raw materials and analyzes the price movements with an aim to control the production costs and would rely on bulk purchases to minimise the impact of such fluctuation. Although this measure, to certain extent, helps cushion the impact of price increment in the raw materials costs, in order to stay competitive in the market, the adjustment in sales price of the Group's products, in most cases, may not fully cover such increments. Fluctuations in the costs of the Group's principal raw materials and the Group's ability to pass on any increase in raw material costs to its customers will affect the Group's cost of sales and gross profit margin. For further details, please refer to the sub-paragraph headed "Any increase in the prices of raw materials or shortage of raw material supplies may adversely affect the Group's profitability" in the section headed "Risk factors – risks relating to the Group" in this document.

The Directors observe that as a result of the slowdown of the global economy, the commodities prices are generally decreasing, which has caused the prices of raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation to have come down as well. The Directors believe this would allow the Group more flexibility to adjust the product selling price, if necessary, in order to remain competitive.

Production capacity

In order to expand the Group's business and launch more products to the market, the Group is required to maintain sufficient production capacity to cope with the likely increase in orders and change in product mix. During the Track Record Period, the production capacity of Shenzhen Xingli Zundian increased from 5,200 sets in 2006 to 9,060 sets in 2008 in order to cater for the continuous growth in the sale of "Johnston" products. The utilisation rates of the Group's production capacity for classic furniture products were approximately [88.5]%, [91.6]% and [91.2]% respectively; for modern furniture products were approximately [90.1]%, [91.5]% and [78]% respectively; and for mattress products were approximately [88.5]%, [92.0]% and [66]% respectively for the three years ended 31 December 2008.

With the production facilities for both classic and modern furniture products operating at almost maximum capacity (with the exception of Shenzhen Xingli for the year of 2008, as the Group outsourced the production of the "K-series" new products under the brand of "PZ-King" to a contract manufacturer due to lack of required production equipment at Shenzhen Xingli), the Directors considered it necessary to expand the Group's production capacity to capture business opportunities that may be brought about upon the recovery of the global economy. The Group has acquired two pieces of land to house its new production facilities. The construction of new production facilities on Longgang Land I was commenced in [June] 2008 and is expected to be completed in [June] 2009. [Under the current construction plan, the new production facilities will have an annual production capacity of approximately [31,800] sets of furniture products.

Contract manufacturing

During the Track Record Period, the Group engaged contract manufacturers for the production of certain furniture products with simple designs and minimal decorative features and on the occasions when the Group's production capacity was running close to its full capacity. For the three years ended 31 December 2008, the total purchases from the contract manufacturers amounted to approximately HK$[107.7] million, HK$[141.7] million and HK$[180.7] million respectively, representing approximately [36.0]%, [35.8]% and [41.7]% of the Group's total cost of sales. It is important to the Group that the contract manufacturers can provide timely services and quality products. In addition, the prices charged by the contract manufacturers may also affect the Group's cost of sales and profit margin. During the Track Record Period, the Group mainly outsourced the production of unbranded furniture products for export sales to contract manufacturers and the Group's pricing policy for export sales is on cost plus basis. Therefore, the prices charged by the contract manufacturers did not have any major impact on the Group's gross profit margin as the gross profit margin for export sales ranged from 10.0% to 10.7% during the Track Record Period. For further details about the contract manufacturing, please refer to paragraphs headed "The Group is dependent on its major suppliers and contract manufacturers" in the section headed "Risk factors" and "Outsourcing" in the section headed "Business" in this document.

Taxation

Pursuant to the income tax rules and regulations of Bermuda and the BVI, the Group is not subject to income tax in Bermuda and the BVI. Hing Lee Ideas Limited, a subsidiary of the Company incorporated in Malaysia, is subject to company income tax in Malaysia. No provision for tax is made for Hing Lee Ideas Limited during the Track Record Period as it has been dormant since its incorporation. The subsidiaries of the Company in Hong Kong are subject to Hong Kong profit tax calculated at 17.5% of the estimated assessable profits for each of the two years ended 31 December 2007 and at 16.5% for the year ended 31 December 2008.

Prior to 1 January 2008, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture, all being subsidiaries of the Company in the PRC, were subject to the enterprise income tax rate of 15%, 15% and 24% respectively. In addition, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture, being foreign investment enterprises engaging in manufacturing with an operating term exceeding 10 years, were approved by the relevant tax authority to be entitled to an enterprise income tax exemption for two years from their first year of profit and a 50% reduction therein for the following three years. Set out below were the enterprise income tax rates for each of the Group's subsidiaries in the PRC and the Group's effective tax rate during the Track Record Period:

	For the year ended 31 December		
	2006	**2007**	**2008**
Shenzhen Xingli	7.5%	7.5%	18.0%
Shenzhen Xingli Zundian	Fully exempted	7.5%	[9.0]%
Dongguan Super Furniture	Fully exempted	Fully exempted	[12.5]%
The Group's effective tax rate	6.9%	4.3%	9.6%

With the New EIT Law becoming effective on 1 January 2008, all enterprises in the PRC are subject to a standard enterprise income tax rate of 25.0%. However, there is a transitional period for enterprises which are currently entitled to preferential tax treatments granted by relevant tax authorities. According to 國務院關於實施企業所得稅過渡優惠政策的通知 (the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007 and became effective on 1 January 2008, enterprises that are subject to an enterprise income tax rate lower than the standard enterprise income tax rate of 25.0% would continue to enjoy the lower rate and gradually transfer to the standard enterprise income tax rate over the period of five years after the effective date of the New EIT Law. Enterprises that are currently entitled to tax exemptions or reductions from the standard enterprise income tax rate for a fixed term will continue to enjoy such treatment until the fixed term expires.

Accordingly, after the applicable transition period, Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture may no longer be able to enjoy the preferential tax treatments and the enterprise income tax rate levied on the subsidiaries of the Company established in the PRC will be increased to the standard enterprise income tax rate of 25.0%.

The Group's effective tax rate was approximately 6.9% for the year ended 31 December 2006 and decreased to approximately 4.3% for the year ended 31 December 2007. The decrease in the effective tax rate was mainly due to the tax effect of certain major expenses which were recorded in 2006 were not deductible in determining taxable profits. Such expenses included the trademark and patents expenses of approximately HK$2.7 million and bad debts (non-trading) written off of approximately HK$8.9 million recorded in 2006. The Group's effective tax rate increased to approximately 9.6% for the year ended 31 December 2008, as the enterprise income tax rates for all the Companies' subsidiaries in the PRC were increased due to the expiry of their respective tax exemptions or reductions and the tax effect of non-tax deductible expenses including mainly impairment for equity investments of approximately HK$3.7 million and impairment for inventories in 2008.

For the year ended 31 December 2008

Turnover

The Group's turnover increased slightly by approximately 8.5% from about HK$492.7 million for the year ended 31 December 2007 to about HK$534.3 million for the year ended 31 December 2008. Thanks to the Group's continuous efforts in participating in various furniture exhibitions in the PRC and overseas to expand the customer base, the increase in turnover for the year was mainly attributable to the 20.4% and 3.0% year-on-year growth in domestic and export sales respectively. The brand "Johnston" continued to record an increase of approximately 21.2% in the domestic sales as compared to the previous year. Besides, during the year, the Group added a new brand name, "New Nobleman" to its self-manufacture product portfolio for domestic sale. "New Nobleman" contributed around HK$19.4 million to the domestic sales. Both "Johnston" and "New Nobleman" are targeted at high price point consumers. The Directors considered the high price point consumers were less affected in the initial stage of the economic slowdown as experienced in the PRC in 2008. The Group also launched a new product series called "K-series' under the brand name of "PZ-King" in the domestic market in August 2008. The "K-series" accounted for approximately HK$24 million in the sale of "PZ-King' products. Without the "K-series", the "PZ-King" would have recorded a decrease in sale, like the brand name "Mandarin", during the year.

However, the licensing business experienced a decrease in revenue for the year of approximately HK$9.0 million, or 32.1% as compared to the previous year. The brand name "New Nobleman", which contributed approximately HK$3.1 million licensing income to the Group in the previous year, was no longer licensed to third parties in 2008. The Group started to manufacture products under the brand "New Nobleman" for sale in the domestic market in the year. In addition, the snow storms and the Sichuan earthquake in the first half of the year and the lack of new product launch in the second half resulted in the decrease in licensing income of approximately HK$6.3 million derived from the brand name "Oriant" in 2008.

Cost of sales

The cost of sales increased by approximately 9.3% from HK$396.4 million for the year ended 31 December 2007 to HK$433.3 million for the year ended 31 December 2008, which was generally in line with the increase in the Group's turnover for domestic and overseas sales amounting to approximately HK$515.4 million, representing an increase of approximately [10.9]% as compared to the previous year.

Gross profit

The Group's gross profit for the year ended 31 December 2008 was approximately HK$101.0 million, representing a gross profit margin of approximately 18.9% against the gross margin of approximately 19.5% for the year ended 31 December 2007. The decrease in the gross profit margin was mainly due to the decrease in the licensing fees earned during the year, as the licensing operation incurred no costs of sales, and the licensing fees contributed 100% to the gross profit of the Group.

Selling and distribution expenses

The Group's selling and distribution expenses amounted to about HK$[35.5] million or [6.7]% of the turnover for the year ended 31 December 2008, against about HK$[27.5] million or [5.6]% of the turnover for the year ended 31 December 2007. The increase was primarily attributable to the increase in exhibition expenses and product design fees paid to external designing houses. In order to increase the international exposure of the Group's brands, the Group actively participated in exhibitions and trade shows in PRC and overseas during 2008. As a result, exhibition expenses rose by approximately [HK$5.8] million from [HK$5.9] million in 2007 to approximately [HK$10.3] million in 2008.

The Group also paid approximately [HK$2.5] million of design fees to external design consulting companies for designing its home furniture products in 2008. This represented 2.4 times increase from approximately [HK$755,000] for the year ended 31 December 2007. Such increase in design fees mainly resulted from the engagement of May Day Design, an Independent Third Party based in Milan, Italy specialised in product design consulting, for designing a brand new product line to be marketed under the brand "CHINATAG" initially in the European markets.

Administrative expenses

For the year ended 31 December 2008, the Group's administrative expenses amounted to approximately HK$[33.3] million against about HK$[28.5] million for the year ended 31 December 2007, representing an increase of about [17.1]%. The increase was mainly due to the increase in staff costs of [HK$4.0] million and the impairment relating to the change in fair value of equity investments amounting to [HK$3.7] million, offset by the decrease in directors' remunerations of approximately [HK$2.2] million for the year ended 31 December 2008.

Profit for the year

The Group's profit for the year decreased by approximately [23.8]% or HK$[9.6] million, from approximately HK$[40.4] million for the year ended 31 December 2007 to approximately HK$[30.8] million for the year ended 31 December 2008. The net profit margin also decreased to approximately 5.8% for the year from approximately 8.2% for the year ended 31 December 2007. The decrease in net profit was mainly due to the decrease in licensing fees and increases in selling and distribution expenses and administrative expenses as mentioned above.

For the year ended 31 December 2007

Turnover

The Group recorded a turnover of approximately HK$[492.7] million for the year ended 31 December 2007 which represented an increase of approximately [33.3]% as compared with that in the previous year. The increase in the Group's turnover during the year was mainly attributable to the increase in both the domestic sales and export sales. Domestic sales increased by approximately [42.2]%, from about HK$[148.4] million for the year ended 31 December 2006 to about HK$[211.0] million for the year ended 31 December 2007 as a result of the Group's increased efforts in undertaking advertising and promotional events in the PRC during the year. Export sales also increased by approximately [30.9]%, from about HK$[193.8] million for the year ended 31 December 2006 to about HK$[253.7] million for the year ended 31 December 2007 primarily due to the Group's continued participation in various furniture exhibitions in the PRC and overseas in 2007 to expand its overseas customer base.

Cost of sales

The cost of sales of the Group increased from approximately HK$[299.5] million for the year ended 31 December 2006 to approximately HK$[396.4] million for the year ended 31 December 2007, representing an increase of approximately [32.4]%. The increase was generally consistent with the increase in the Group's turnover for the year.

Gross profit

The Group's gross profit for the year ended 31 December 2007 was approximately HK$[96.2] million, representing a gross profit margin of approximately [19.5]% against the gross profit margin of approximately [19.0]% for the year ended 31 December 2006. The overall gross profit margin was slightly improved, mainly due to the fact that the Group was able to achieve the benefit of economies of scale as the production volume and turnover grew.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately [48.9]% from approximately HK$[18.4] million for the year ended 31 December 2006 to approximately HK$[27.5] million for the year ended 31 December 2007. The increase was primarily due to the significant increase in the advertising and exhibition expenses from approximately HK$[0.9] million for the year ended 31 December 2006 to approximately HK$[12.7] million for the year ended 31 December 2007. During the year, the Group increased efforts and resources in promoting its products through television advertisements and organising a series of marketing events, such as participating in various furniture exhibitions in 2007.

Administrative expenses

The Group's administrative expenses increased by approximately [26.1]%, from approximately HK$[22.6] million for the year ended 31 December 2006 to approximately HK$[28.5] million for the year ended 31 December 2007, primarily attributable to the increase in staff expenses and directors' remuneration. Staff expenses rose by approximately 137% from approximately HK$2.4 million in 2006 to approximately HK$5.7 million in 2007 due to the increase in manpower as a result of growth in operation and a share-based compensation of approximately HK$[1.3] million relating to share options granted to employees. Directors' remuneration increased to approximately HK$7.7 million in 2007 from approximately HK$3.1 million. The increase was mainly due to a performance bonus of HK$2.0 million granted to the directors and a share-based compensation of approximately HK$1.1 million relating to the share options granted to the directors.

Profit for the year

As a result of the foregoing, the Group's profit for the year increased by approximately [40.6]% from approximately HK$[28.8] million for the year ended 31 December 2006 to HK$[40.4] million for the year ended 31 December 2007. The Group's net profit margin increased to approximately [8.2]% in 2007 as compared to approximately [7.8]% in 2006. Such increase in the net profit margin was mainly attributable to (i) the higher gross profit margin recorded by the Group in 2007 than in 2006, (ii) lower finance costs in 2007, as the bank loan was fully repaid during the year of 2006 and (iii) a lower effective tax rate of approximately 4.3% in 2007 against approximately 6.9% in 2006.

For the year ended 31 December 2006

Turnover

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK$[369.6] million.

Cost of sales

The Group's costs of sales amounted to approximately HK$[299.5] million for the year ended 31 December 2006.

Gross profit

The Group's gross profit was approximately HK$[70.1] million for the year ended 31 December 2006, representing a gross profit margin of about [19.0]%.

Selling and distribution expenses

The Group's selling and distribution expenses amounted to approximately HK$[18.4] million, representing about [5.0]% of the turnover for the year ended 31 December 2006.

Administrative expenses

For the year ended 31 December 2006, the Group's administrative expenses were approximately HK$[22.6] million, representing approximately [6.1]% of the turnover.

Profit for the year

For the year ended 31 December 2006, the Group's profit was approximately HK$[28.8] million and the net profit margin was approximately [7.8]%.

RECENT GLOBAL FINANCIAL CRISIS

The recent global economic crisis has adversely affected the world economies and also resulted in a global credit tightening. With a deteriorating worldwide economy, demand for, among other things, consumer products may fall, which in turn may affect the demand for the Group's furniture products. If this economic downturn continues, the Group's business operations and financial performance could be adversely affected. For the first quarter of 2009, the Group's domestic sales, export sales, and licensing income decreased by approximately [15.1]%, [12.8]% and [14.6]% respectively as compared with the corresponding period of 2008.

In addition, amid the credit tightening environment, banks may vary the terms of bank loans or the banking facilities currently extended to borrowers. As at the Latest Practicable Date, the Group had banking facilities of RMB70 million, of which RMB[12] million was undrawn. Despite the increase in the lending margin imposed by the Group's lending bank effective October 2008, the cost of funding of the Group is not expected to increase due to the reduction in the lending rate stipulated by the PBOC since September 2008.

Up to the Latest Practicable Date, the Group had not encountered any request for price cut, cancellation of orders placed, bankruptcy or default on the part of any customers and suppliers, nor had it received any notification from its principal banker regarding potential withdrawal of its banking facilities, early payment of outstanding bank borrowings, or demand for increment of collaterals for secured borrowings.

Nevertheless, the Directors observed that as a result of the slowdown of the global economy, commodities prices have generally decreased, which caused the prices of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation to have come down as well. During the first quarter of 2009, the average price of major raw materials and cost of transportation of the Group experienced a decrease of approximately [7.1]% and [18.9]% respectively as compared to the corresponding period of 2008. The Directors believe this would allow the Group more flexibility to adjust the product selling price, if necessary, in order to remain competitive.

The Directors believe the state of the PRC property market would have a major bearing on the growth of the Group's domestic sales and licensing business in the coming years. They are of the view that the various economic stimulus packages implemented by the PRC government will eventually restore market confidence and boost the turnover in the PRC property market, which may in turn result in an increase in the demand for furniture products. The Directors believe that the Group's domestic sales and its licensing business will benefit from the pick up in the PRC property market. Furthermore, the Group has planned to open up new markets in second and third tier cities in the PRC, such as 汕尾 (Shanwei) and 清遠 (Qingyuan) in Guangdong Province, 齊齊哈爾 (Qiqihar) in Heilongjiang Province and 福安 (Fuan) in Fujian Province to expand its distributions network in the PRC.

As for export sales, the Directors believe that countries in Africa and the Middle East, which are expected to report growth in GDP in 2009 according to the International Monetary Fund, would continue to offer new business opportunities to the Group in the coming years. The Directors also note that government authorities in the United States and Europe have announced measures aimed at supporting major institutions, stabilising markets and bolstering confidence, and a gradual recovery is projected by the International Monetary Fund in 2010. The Directors anticipate that the Group's export sales will benefit from the recovery in the global economy.

Based on the foregoing, the Directors believe that the performance of the Group in the near future may not be severely jeopardised by the current weak economic conditions. The Directors expect that the Group's future plans will continue to be implemented as scheduled. For more details, please refer to the section headed "Future plans" in this document.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

During the Track Record Period, the Group's operations were generally financed through a combination of shareholders' equity, internally generated cash flows and bank borrowings. The Directors believe that in the long term, the Group's operations will be funded by internally generated cash flows and, if necessary, additional equity financing and bank borrowings.

Net current assets

Details of the Group's current assets and liabilities at each of the balance sheet dates during the Track Record Period are as follows:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Prepaid lease payments	–	959	[1,029]
Inventories	39,451	56,973	[67,447]
Trade receivables	71,645	38,920	[34,562]
Prepayments, deposits and other receivables	28,457	32,759	[24,041]
Amounts due from directors	3,678	–	[–]
Time deposit	–	2,680	[–]
Restricted bank deposits	–	–	[9,929]
Bank balances and cash	73,887	85,192	[88,208]
	217,118	217,483	[225,216]
Current liabilities			
Trade payables	80,176	67,338	[61,221]
Other payables and accruals	15,267	48,983	[34,188]
Current portion of secured bank loans	–	–	[11,441]
Amounts due to directors	810	–	[–]
Amount due to a related company	–	–	[749]
Current tax payable	2,077	3,333	[3,834]
	98,330	119,654	[111,433]
Net current assets	118,788	97,829	[113,783]

The Group recorded a net current assets position of approximately HK$[118.8] million as at 31 December 2006. The Group's net current assets position decreased to approximately HK$[97.8] million as at 31 December 2007. The reduction in the Group's net current assets position in 2007 was because of the short term advance of approximately HK$[23.6] million from a member of SFTA, an Independent Third Party, to finance the acquisition of Longgang Land II.

The Group recorded an increase in its net current assets position by approximately HK$16.0 million as at 31 December 2008 as compared to the previous year. This was primarily due to the fact that the Group had drawn out a bank loan of approximately HK$[43.8] million with over one year maturity to finance such increase in its net assets.

Cash flow

Overview

The following table sets out the changes in cash flows of the Group for the periods indicated:

	For the year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	**(audited)**	**(audited)**
Cash and cash equivalents at beginning of the year	34,869	73,887	85,192
Net cash generated from operating activities	52,868	59,702	49,176
Net cash used in investing activities	(3,337)	(63,309)	(67,254)
Net cash (used in)/generated from financing activities	(11,890)	7,540	16,262
Effect of foreign exchange rate changes	1,377	7,372	4,832
Cash and cash equivalents at end of the year	73,887	85,192	88,208

Operating activities

For the year ended 31 December 2006, the Group recorded a net cash inflow from operating activities of approximately HK$[52.9] million, which was mainly generated from the operating profit before working capital changes of approximately HK$[51.2] million, adjusted for the outflow of the increase in trade receivables, other receivables, prepayments and deposits of approximately HK$[27.8] million and decrease in other payables, accruals and deposits received of approximately HK$[13.9] million, and partially offset by the inflow of increase in trade payables of approximately HK$[44.7] million.

For the year ended 31 December 2007, the Group recorded a net cash inflow from operating activities of approximately HK$[59.7] million, which was mainly attributable to the operating profit before working capital changes of approximately HK$48.4 million generated in the year after, adjusted for the inflows of the decrease in trade receivables of approximately HK$[33.6] million due to the Group's increasing manpower in following up on receivable settlement and increase in other payables, accruals and deposits received of approximately HK$[10.1] million, and offset by the outflows of decrease in trade payables of approximately HK$[12.8] million due to timely settlement of payables so as to maintain good business relationship with the suppliers and increase in inventories of approximately HK$[18.0] million.

For the year ended 31 December 2008, the Group recorded a net cash inflow from operating activities of approximately HK$49.2 million, which was mainly attributable to the operating profit before working capital changes of approximately HK$[46.3] million generated during the year, adjusted for the inflows of decrease in trade receivables of approximately HK$5.9 million, decrease in prepayments, deposits and other receivables of approximately HK$8.7 million, and increase of other payables and accruals of approximately HK$8.8 million and offset by outflows of increase in the level of inventories by approximately HK$12.6 million and decrease in trade payables of approximately HK$6.1 million.

Investing activities

For the year ended 31 December 2006, the net cash outflow from investing activities amounted to approximately HK$[3.3] million. Such cash outflow was mainly attributable to the payments for acquiring property, plant and equipment of approximately HK$[3.4] million.

For the year ended 31 December 2007, the net cash outflow from investing activities amounted to approximately HK$[63.3] million, which was mainly attributable to the payments for prepaid land lease of approximately HK$[47.9] million, payments to acquire fixed assets of approximately HK$[13.2] million, and the increase in time deposits of approximately HK$[2.7] million.

For the year ended 31 December 2008, the net cash outflow from investing activities amounted to approximately HK$[67.3] million. Such cash outflow was mainly attributable to (i) pledging restricted bank deposits of approximately HK$[9.9] million for the issue of a performance bond required under the 深圳市建設工程擔保實施辦法 (Shenzhen Construction Assurance Practice Note) imposed by 深圳市建設局 (Shenzhen Construction Bureau) to guarantee the payment of construction costs to the Group's main contractor of the Shenzhen Xingli Production Base, (ii) capital expenditure spent in relation to the construction of the Shenzhen Xingli Production Base amounting to approximately HK$[49.1] million, (iii) payments to acquire plant and machinery of approximately HK$3.7 million and net purchase of equity investments approximately HK$[7.5] million.

Financing activities

For the year ended 31 December 2006, the Group recorded a net cash outflow from financing activities amounted to approximately HK$[11.9] million, which primarily consisted of the repayment of bank loans of approximately HK$[9.6] million and dividends of approximately HK$3.7 million distributed to the minority shareholder of Shenzhen Dahao upon its dissolution.

For the year ended 31 December 2007, the Group recorded a net cash inflow from financing activities amounting to approximately HK$7.5 million. Such inflow was mainly attributable to the short-term advance of approximately HK$23.6 million extended by an independent third party for settling the prepaid land lease payments after deducting the outflow of dividends paid of approximately HK$17.2 million.

For the year ended 31 December 2008, the Group recorded a net cash inflow from financing activities of approximately HK$16.3 million. Such inflow was generated mainly due to the bank borrowings in the net amount of approximately HK$43.8 million obtained by the Group during the year after deducting the advance repayment of approximately HK$23.6 million in relation to settling the prepaid land lease payments and the dividend payment of approximately HK$4.0 million.

Working capital analysis

Key financial ratios and other information

	Year ended 31 December		
	2006	**2007**	**2008**
Liquidity ratios			
Inventory turnover days *(Note 1)*	[50]	[45]	[52]
Trade receivables turnover days *(Note 2)*	[60]	[41]	[25]
Trade payables turnover days *(Note 3)*	[70]	[68]	[54]

Notes:

(1) Inventory turnover days equals to the average of the opening and ending balances of inventory of the period divided by the cost of sales during such period and then multiplied by the number of days during such period.

(2) Trade receivables turnover days equals to the average of the opening and ending trade receivables balances of the year divided by the turnover during the year and then multiplied by 365 days.

(3) Trade payables turnover days equals to the average of the opening and ending balances trade payables of the period divided by the cost of sales during such period and then multiplied by the number of days during such period.

Inventory analysis

The following table sets forth the components of the Group's inventory as of the respective balance sheet dates:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	7,046	9,889	5,859
Work in progress	8,312	8,533	7,745
Finished goods	24,093	38,551	53,843
Total	39,451	56,973	67,447

The increase in the Group's inventory level as at 31 December 2007 was mainly attributable to the strong demand for its branded furniture products in domestic and export markets throughout the years from 2006 to 2007 and the Group needed to increase its inventory level to meet the growing production of furniture products. Nevertheless, inventory turnover days of the Group decreased from approximately [50] days for the year ended 31 December 2006 to approximately [45] days for the year ended 31 December 2007. The drop in inventory turnover days was mainly due to the Group's ability to control its inventory level whilst achieving an average growth of over 30% in its domestic and export sales in 2007.

During the year ended 31 December 2008, the Group increased its product offerings by adding the brand name "New Nobleman" to its self-manufacture product portfolio, which also contributed to the slight rise in the inventory level and inventory turnover days to 52 days for the year.

In order to better utilise its working capital, the Group has targeted to maintain its inventory level sufficient for approximately one month's sales.

Inventories are valued at the lower of the cost as calculated, on a weighted average basis, and the net realisable value after making due impairment for any obsolete or slow moving items. The Group reviews the aging of inventories on a quarterly basis and makes impairment for any obsolete or slow moving items in accordance with the Group's policy. The Group makes 30% impairment for the raw materials aged within 181 to 365 days, 50% impairment for those aged 1 to 2 years and full impairment for those aged more than 2 years. A full impairment is made for those work in progress items aged more than 180 days. The Group makes 30% impairment for the finished goods aged within 181 to 365 days, 50% impairment for those aged 1 to 2 years and full impairment for those aged more than 2 years. Obsolete inventories as identified by the Group are sold at discounted prices.

During the Track Record Period, the impairment for inventories against those obsolete and slow moving items amounted to approximately HK$[2.0] million, HK$[0.5] million and HK$[2.2] million respectively.

Up to 25 April 2009, the raw materials and work in progress of HK$12.4 million as at 31 December 2008 have been subsequently utilised in the production process and the finished goods of HK$35.0 million as at 31 December 2008 have been subsequently sold out in the ordinary course of business.

Trade receivables analysis

The following table sets forth the aging analysis of trade receivables as of the respective balance sheet dates:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Within 3 months	42,600	30,539	28,218
3 months to 6 months	9,071	5,806	4,605
6 months to 12 months	960	2,487	1,519
Over 1 year	19,014	88	220
Total	71,645	38,920	34,562

The Group's trade receivables amounted to approximately HK$[71.6] million, HK$[38.9] million and HK$[34.6] million as at 31 December 2006, 2007 and 2008 respectively. Despite the growth in the domestic and export sales in 2007 and 2008, the balance of trade receivables continued to decrease at the end of both years. Such decrease was mainly attributable to the Group's increasing manpower in following up on subsequent settlement with its customers and licensees by way of telephone calls and personal visits since late 2007, in order to improve its working capital position. The effectiveness of the Group's credit control was also evidenced by the decrease in trade receivables turnover days from [60] days in 2006 to [41] days in 2007, and further to 25 days for the year ended 31 December 2008.

The Group typically requires new distributors for domestic sales to pay in cash upon delivery or place a deposit when ordering, which amount depends on the Group's assessment of the credit risk associated with these new distributors. The Group generally grants credit terms of 30 to 60 days to distributors with satisfactory payment records and a standard credit term of 60 days to the licensees. The credit term and limit for each distributor are approved by the chief executive officer of the Company and are subject to regular review by the Group's senior management.

As for export sales, all overseas customers, except a few long-established ones to whom credit terms of 30 to 90 days are offered, are required to place upfront cash deposits with or to obtain letters of credit in form of the Group when placing purchase orders.

In 2004 and 2005, when the Group was initially developing its licensing business, it did not impose strict settlement time frame on the receivables due from the licensees, for the purpose of securing business relationships with such licensees, which resulted in the substantial balance of trade receivables aged over 1 year of approximately HK$19.0 million recorded in the accounts for the year ended 31 December 2006. Such receivables were fully settled in 2007. Save for the aforesaid, there was no material change in credit terms granted to the Group's distributors, overseas customers and licensees over the Track Record Period.

During the Track Record Period, the Group made gross impairment of trade receivables amounting to approximately HK$[4.4] million, HK$[5.8] million and HK$[2.1] million respectively and also recorded reversal of impairment of trade receivables approximately nil, HK$6.7 million and HK$3.6 million respectively. The reversal of impairment of trade receivables approximately HK$6.7 million recorded in 2007 was mainly related to the HK$2.7 million and HK$4.0 million impairments made in 2005 and 2006 respectively. Both impairments were made against receivables due from the Group's licensees. The reversal of approximately HK$3.6 million recorded in 2008 was mainly related to the impairments made in 2007 with respect to certain distributors for domestic sales.

98.3% and 100% of the trade receivables which were past due but not impaired as at 31 December 2006 and 31 December 2007 respectively have been subsequently settled after the balance sheet date. In respect of the remaining 1.7% of the trade receivable as at 31 December 2006 which was not settled after the balance sheet date, the Group made the relevant impairment in 2007.

Up to [9 May] 2009, the trade receivables in the amount of approximately HK$[34.3] million, which represented approximately [99.1]% of the balance as at 31 December 2008 have been subsequently settled.

Other receivables, prepayments and deposits analysis

Other receivables

Set out below is the breakdown of the Group's other receivables for the three years ended 31 December 2008:

	Year Ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
VAT recoverable	7,108	8,933	4,898
Staff advances	1,061	672	263
Others	1,825	915	474
	9,994	10,520	5,635

The balance of other receivables consisted of VAT recoverable, staff advances and other miscellaneous advance payments for daily operation purposes. VAT recoverable dropped to approximately HK$4.9 million as at 31 December 2008. The decrease was due to the Group's increasing reliance on bulk purchases of raw materials from certain selected suppliers who were able to produce the supplier invoices to the Group on time to facilitate the processing of VAT claims.

In order to better control staff and other miscellaneous advances, the Group has required all such advances have to be accounted for with the finance and accounting department within approximately [21] days from the date of advance. Therefore, the amount for staff and other advance reduced from HK$2.9 million in 2006 to HK$0.7 million in 2008.

Prepayments and deposits

Set out below is the breakdown of the Group's prepayments and deposits for the three years ended 31 December 2008:

	Year Ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Deposits placed with contract manufacturers and raw materials suppliers	16,082	12,458	4,188
Capital expenditure deposits	676	3,115	1,507
Prepayment of listing expenses	–	1,350	8,280
Utility and rental deposits	1,296	1,315	1,907
Exhibition deposits	67	1,125	1,339
Design fee deposits	–	927	835
Others	342	1,949	350
	18,463	22,239	18,406

During the Track Record period, the Group regularly placed deposit payments with contacts manufacturers and raw material suppliers. Due to the strong growth of its domestic and exports sales experienced during the Track Record Period and as a result of the Group's limited production capacity, production outsourced with contract manufacturers continued to increase and accounted for over 30% of the cost of sales during the Track Record Period. The outsourcing costs amounted to approximately HK$[107.7] million, [HK$141.7] million and [HK$180.7] million for the years ended 31 December 2006, 2007 and 2008 respectively. In order to ensure the contract manufacturers reserve the required production capacity to handle the Group's outsourcing orders in a timely manner, the Group had been asked to make deposits with the contract manufacturers before actually placing orders. During the Track Record Period, all such deposits placed with the contract manufacturers were either used to settle part of outsourcing costs or fully repaid if no order was placed subsequently.

The Group had not experienced any loss resulting from the forfeiture or non-refund of such deposits placed with contract manufacturers and suppliers during the Track Record Period. The balance dropped from HK$16.1 million in 2006 to HK$4.2 million in 2008. The decrease was mainly because some contract manufacturers, having considered the Group's past payment history and the well established business relationship, reduced or waived the deposit requirement.

Capital expenditure deposits mainly comprised initial deposit payments for purchasing production equipment and construction deposit for the Shenzhen Xingli Production Base. The balance decreased from approximately HK$3.1 million in 2007 to HK$1.5 million in 2008, as the construction deposit for Shenzhen Xingli Production Base had been reclassified as part of the construction in progress under property, plant and equipment in the financial statements for the year ended 31 December 2008.

Trade payables analysis

The following table sets forth the aging analysis of trade payables as of the respective balance sheet dates:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Within 3 months	72,363	63,027	56,880
3 months to 1 year	5,511	3,930	3,995
Over 1 year	2,302	381	346
Total	80,176	67,338	61,221

The balance of trade payables comprised trade balances due to raw material suppliers and contract manufacturers.

In general, purchases of raw materials are settled by the Group either in cash or on an open account basis in RMB with credit terms of [30] to [90] days whilst purchases from contract manufacturers are on 30 days credit term as specified in the framework agreements with the contract manufacturers. In order to obtain better pricing terms on its purchases, the Group strives to make payments to the suppliers on time to improve its creditworthiness.

As at 31 December 2006, 2007 and 2008, trade payables aged over 3 months amounted to approximately HK$[7.8] million, HK$[4.3] million and HK$[4.3] million respectively, representing approximately [9.7]%, [6.4]% and [7.1]% respectively of the Group's trade payables. Some of the Group's suppliers, having considered the Group's past payment history, sometimes allowed the Group to carry forward outstanding balances for another 30 to 90 days, in order to maintain good business relationship with the Group.

The turnover days of the Group's trade payables were approximately [70] days, [68] days and [54] days for the years ended 31 December 2006, 2007 and 2008, respectively. The drop in the trade payable turnover days during the Track Record Period was mainly due to the fact that the Group strived to settle the payables with suppliers on time to improve its creditworthiness.

The trade payables as at the year ended 31 December 2008 of approximately HK$36.4 million, which represented approximately 59.5% of the total balance have been subsequently settled up to [28 February 2009].

Other payables, accruals and deposits received analysis

The following table sets forth the Group's other payables, accruals, provision for tax surcharge and penalty, and deposits received as of the respective balance sheet dates:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Other payables	1,690	27,518	3,430
Accruals	5,332	7,822	11,359
Provision for tax surcharge and penalty	–	2,661	2,661
Deposits received	8,245	10,982	16,738
Total	15,267	48,983	34,188

Other payables

Set out below is the breakdown of the Group's other payables during the Track Record Period:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Land lease payment payable	–	23,580	–
Exhibition expense payables	–	1,636	–
VAT payables	863	1,583	3,060
Others	827	719	370
	1,690	27,518	3,430

The land lease payment payable as at 31 December 2007 represented an advance due to a member of SFTA, an Independent Third Party, with respect to the land lease payment for acquiring the Longgang Land II. Such payable was fully repaid in 2008. The VAT payables increased to approximately HK$3.1 million as at 31 December 2008, as the Group recorded substantial increase in the sales of "PZ-King" new series products in the month of December of the year and the respective VAT payable to the government for such sales was not settled until early 2009.

Accruals

Set out below is the breakdown of the Group's accruals during the Track Record Period:

	As at 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Salaries	1,171	3,911	5,386
Housing provident fund and employee social insurances	–	1,740	2,612
Transportation	679	619	725
Professional fees	380	1,072	656
Other disbursement	3,102	480	1,980
	5,332	7,822	11,359

Housing provident fund and employee social insurances – The amount represents the accumulated balance of the provision for the outstanding housing provident fund and employee social insurances contributions at the year end for the financial years 2006 to 2008. The Director considered the accumulated balance for outstanding contributions at the year end of 2006 amounting to approximately HK$[1 million] was not material, and, therefore, no provision was made by the Group in that year. However balance for the accumulated outstanding contributions as at the year end of 2007 increased to approximately HK$[1.7 million] which was considered being material to the Group's financial performance. The Directors, and therefore made a provision of the same amount in the Group's 2007 financial statements. The balance further increased to approximately HK$2.6 million at the end of 2008, after adding on the provision of appropriate HK$0.9 million for 2008.

Provision for tax surcharge and penalty

The amount represents the carrying amount of the provision for the penalty with respect to the undercharged tax for the years of assessment 2005/2006, 2006/2007 and 2007/2008.

Deposits received

The balance solely represented deposit payments received by the Group from its local and overseas customers when they place purchase orders. Depending on the customers' creditworthiness and the type of products ordered, the percentage of deposits required varies.

Available-for-sale investments

The available-for-sale investments comprised the securities investments of Hong Kong listed issuers, namely Industrial and Commercial Bank of China, China Shipping Development Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited, Nine Dragons Paper (Holdings) Limited and A50 China Tracker Fund. The Group has invested in the Hong Kong stock market since January 2008 with the initial intention of increasing the return of its surplus cash position. In August 2008, the Directors decided that all of the Group's securities investments would be held for long term as they believed in the long term economic growth prospects of the PRC after the Beijing 2008 Olympic event. In addition, the Directors further subsequently decided not to make any further investment in the securities market, save for the formation of strategic alliance, if required. The Company's chief financial officer monitors the performance of the Group's securities investments and reports to the Board regularly. The Company intends to hold the securities of these listed companies as long term investments. Should the Board become aware of any fundamental shift in the operations or business of any of the investee companies that will potentially result in adverse changes in the prospects of that company, the Board will take appropriate steps to dispose of such investment.

For the year ended 31 December 2008, the Group made an impairment for the available-for-sale investments of approximately HK$2.7 million and recorded a change in fair value of the equity-investment at fair value through profit and loss of approximately HK$[1.0] million due to the change in the market value of such investments, against the original costs of approximately HK$[8.3] million.

As at the Latest Practicable Date, the market value of the available-for-sale investment of the Group amounted to approximately HK$[●] million.

Capital expenditures

Capital expenditures of the Group comprised the purchase of property, plant and equipment. For the three years ended 31 December 2008, the Group's capital expenditures were approximately HK$[3.4] million, HK$[61.1] million and HK$[53.5] million respectively. The increase in capital expenditures for the year ended 31 December 2007 was mainly attributable to the acquisition of Longgang Land I and Longgang Land II and the construction thereon. The Directors currently estimate that the capital expenditure of the Group for the year ending 31 December 2009 will amount to approximately HK$[59.7] million.

The Directors expect to fund the capital expenditures through cash flow from operations, working capital facilities, short-term borrowings and [●]. The Directors believe that the cash generated from these sources will be sufficient to finance the Group's capital expenditure requirements for the next twelve months from the date of this document.

Working capital

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities, [●] and the Group's cash and cash equivalents on hand, the Directors are of the opinion that the Group has sufficient working capital for its present requirements and for the next twelve months from the date of this document.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

During its conduct of business, the Group is exposed to various types of market risks including foreign exchange rate risk, commodity price risk and interest rate risk.

Liquidity risk

The Board and the chief financial officer of the Company together regularly monitor the Group's present and future cashflow requirements in order to ensure that the Group maintains sufficient funding readily available for its day-to-day operations, planned capital expenditure and scheduled bank loan repayment. The Group also ensures availability of revolving bank credit facilities amounting to RMB10,000,000 to address any short term fluctuations in working capital funding requirements.

For each of the two years ended 31 December 2006 and 2007, the Group financed its operations and current liabilities through its internal resources and had not utilised any bank loan. To finance the construction of the Group's new production facilities in 2008, the Group secured a new banking facility amounting to RMB[70,000,000] (approximately HK$79,374,000) in [November] 2007. As at 31 December 2006, 2007 and 2008, the Group's bank balances and cash on hand amounted to approximately HK$73,887,000, HK$85,192,000 and HK$[88,208,000] respectively and the available banking facilities were approximately nil, nil and RMB30,000,000 (approximately HK$34,018,000) respectively. The Directors consider that the Group is not exposed to any significant liquidity risk.

Credit risk

The credit risk of the Group primarily arises from the possibility that customers may not be able to settle their payment obligations according to their terms of transactions. The Group adopts different credit terms for different types of customers. The amount of the credit limit and the term of the credit period granted to each customer are determined based on the length of business relationship between the relevant customer and the Group, past payment history, and the usual size of purchase orders. The credit term and limit for each customer are approved by the chief executive officer of the Company, Mr. Sung, and are monitored and reviewed periodically by the Group's relevant senior management members. The Group may amend the credit term and credit limit from time to time in light of changing market conditions and industry norms. The Group grants its distributors for domestic sales credit terms of 30 to 60 days and the licensees a standard credit term of 60 days, and certain long-established overseas customers credit term of 30 to 90 day.

The Group has policies in place to ensure that sales are made to customers with available credit limits if not on cash terms. The finance and accounting department is responsible for providing aging report for trade receivables to identify the overdue accounts, while the sales and marketing department is responsible for following up with the customers to recover the overdue debts. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. As at each of 31 December 2006, 2007 and 2008, there was no major concentration of credit risk. In respect of trade receivables, the Group does not issue any derivative financial instruments to securitise them.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset in the consolidated balance sheet.

Foreign exchange rate risk

The Group's financial statements are expressed in Hong Kong dollars, whilst currency for its operations in the PRC is RMB. Therefore, any depreciation of RMB will reduce the value of the Group's assets and profitability and any dividends payable on the Shares in Hong Kong dollars terms.

The Group sells its furniture products to the distributors in the PRC and the customers in the overseas markets. All the sales proceeds from domestic sales are in RMB, while export sales are settled by customers in US dollars and Hong Kong dollars. During the Track Record Period, in respect of the Group's sales, approximately [45.0]%, [45.8]% and [46.6]% was denominated in RMB respectively, approximately [45.2]%, [47.7]% and [48.3]% was denominated in US dollars respectively and approximately [9.8]%, [6.5]% and [4.1]% was denominated in Hong Kong dollars respectively. The Group's manufacturing operation is based in the PRC and majority of its costs of sales are mainly denominated in RMB. During the Track Record Period, in respect of the Group's costs of sales, approximately [73.2]%, [77.5]% and [77.2]% was denominated in RMB respectively, and approximately [26.8]%, [22.5]% and [22.8]% was denominated in US dollars (which was mainly to purchases from contract manufacturers) respectively. There exists a mismatch of currency in which the export sales and the related costs of sales are denominated. During the Track Record Period, in respect of approximately [54]%, [61]% and [57.9]% of the export sales, the costs of sales were denominated in RMB.

As the Group's financial statements are expressed in Hong Kong dollars and the exchange rate of Hong Kong dollars is pegged to US dollars, the Group is exposed to foreign exchange risk arising from fluctuation in RMB. Any appreciation in RMB against US dollars and Hong Kong dollars will make the Group's products more expensive for export, thereby adversely affecting their price competitiveness in foreign markets. In order to avoid foreign exchange exposure arising from the export sales, the Group has outsourced a significant proportion of the production relating to export sales to the contract manufacturers and settled with its contract manufacturers in US dollars.

On the other hand, any appreciation of RMB against Hong Kong dollars will increase the amount of revenue and profit which was originally accounted for in RMB and converted to Hong Kong dollars as reported in the accounts of the Company. One percentage of appreciation of RMB against US dollars and Hong Kong dollars as at 31 December 2006, 2007 and 2008 would have increased the Group's profit attributable to equity holders by [1.8]%, [1.9]% and [1.73]% respectively, assuming all other factors remain unchanged. One percentage of depreciation of RMB against US dollars and Hong Kong dollars would have the equal but opposite effect on the Group's profit attributable to equity holders.

As at 31 December 2006, 2007 and 2008, in respect of the Group's bank balances and cash, approximately [60.8]%, [56.9]% and [64.5]%, was dominated in RMB respectively, approximately [15.9]%, [16.3]% and [27.8]% was denominated in US dollars respectively, and approximately [23.3]%, [26.8]% and [7.7]% was denominated in Hong Kong dollars respectively. The Group's bank borrowings were maintained in RMB. To date, the Group has not entered into any hedging transactions to reduce its foreign currency exposure, as the availability of hedge instrument is limited in the PRC.

Commodity price risk

The major raw materials used in the production of the Group's products included MDF board, ironware and paint. The Group is exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group procures raw materials based on production requirements and would rely on bulk purchases to minimise the impact of such fluctuation.]

Interest rate risk

The Group's income and operating cash flows are not directly affected by changes in market interest rates. The Group has no significant interest-bearing assets except for the bank balances and cash, details of which have been disclosed in Note 20 to the accountants' report set out in Appendix I to this document. The Group's exposure to changes in interest rates is mainly attributable to the Group's borrowings, details of which and an analysis of effective interest rates have been disclosed in Note 23 and Note 30(a)(iii) to the accountants' report set out in Appendix I to this document. As at 31 December 2006, 2007 and 2008, the amount of the Group's bank borrowings were [nil], [nil] and RMB[38.6] million (approximately HK$43.8 million). As at 31 December 2008, the bank borrowings carried an interest rate at 120% of the lending rate stipulated by the PBOC. As there is [limited choice of hedging instruments] in the PRC to hedge the impact of the interest rates fluctuations, the Group has not adopted any hedging policies against interest rates fluctuations.

PROPERTY INTERESTS AND PROPERTY VALUATION

Greater China Appraisal Limited, an independent valuer, has valued the property interests of the Group as of [31 March 2009] at nil. The full text of the letter with a summary of valuation and valuation certificates in connection with the Group's property interests are set out in Appendix III to this document.

The table below sets forth the reconciliation of aggregate amounts of property interests from the Group's audited consolidated financial statements as at 31 December 2008 to their value as at [31 March 2009] as stated in Appendix III to this document:

	HK$'000
Net book value of the following properties as at 31 December 2008 as set out in Appendix I to this document:	
– Construction in progress	[49,068]
– Prepaid lease payments	[48,857]
Net book value as at 31 December 2008	[97,925]
Movements for the three months ended [31 March 2009]	
Additions of construction in progress (unaudited)	17,400
Amortisation of prepaid lease payments (unaudited)	(257)
Net book value as at [31 March 2009] (unaudited)	115,068
Valuation deficit as at [31 March 2009] (unaudited)	(115,068)
Valuation of properties owned by the Group as at [31 March 2009] as set out in the property valuation report in Appendix III to this document	[0]

DISTRIBUTABLE RESERVES

As at 31 December 2008, the amount of reserves available for distribution to the Shareholders amounted to HK$[103.4] million, solely being the retained profits of the Group.

DIVIDEND POLICY

For the three years ended 31 December 2008, the Group paid dividends in the amount of nil, approximately HK$17.3 million and HK$[4.0] million respectively, representing dividend payout ratios of nil, approximately 42.7% and [12.9]% respectively. All of the aforesaid dividends were paid in cash out of the internal resources of the Group. The Group intends to maintain a dividend payout ratio of no less than [●]% after [●]. However, the actual dividend payout ratio will be determined at the Directors' full discretion, after taking into account the profitability and cash availability of the Group. Nevertheless, the historical dividend distribution record of the Group should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Group in the future.

NO MATERIAL ADVERSE CHANGE

[Due to the recent economic downturn, for the first quarter of 2009, the Group's domestic sales, licensing income and export sales experienced a decrease of approximately [15.1]%, [14.6]% and [12.8]% respectively as compared with the corresponding period of 2008.] Save for the aforesaid, the Directors confirmed that [there had been no material adverse change in the financial position of the Group since 31 December 2008, the date to which the latest audited financial statements of the Group were made up.]