Annual Report 2011

Universiade SHENZHEN 2011

Royal FURNITURE 皇朝傢俬

Sponsor of the category of life and office furniture in the 26th Universiade SHENZHEN

ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

Contents

Corporate Information

Directors

Executive Directors

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

Independent Non-Executive Directors

Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

Audit Committee

Mr. Yue Man Yiu Matthew *(Chairman)*
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Lau Chi Kit

Remuneration Committee

Mr. Chang Chu Fai J. Francis *(Chairman)*
Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

Company Secretary

Ms. Chan Wei Fun, CPA

Auditors

Ernst & Young

Solicitors

DLA Piper Hong Kong

Principal Banker

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Room 204, 2/F
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Kowloon, Hong Kong

Stock Code

1198

Investor Relations

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Chairman's Statement

Dear Shareholders,

I am pleased to present the annual results of Royale Furniture Holdings Limited (thereafter, "Royale Furniture" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2011.

Our growth momentum in 2011 continues despite of the overall Chinese economy was hard pressed by the poor export sectors and the restrictive government policies on the property sector. In particular, the Group selectively focused its expansion strategy onto the Tier 3 and 4 cities instead of the larger Tier 1 and 2 cities. The Group achieved year-on-year revenue growth of 27.9% to HK$1,547.3 million. Profit attributable to equity shareholders amounted to HK$228.2 million, an earning record for the Group representing an increase of 25.9% from 2010.

The Board of Directors recommended the payment of a final dividend of HK8.0 cents per share for the year ended 31 December 2011. Together with the interim dividend of HK3.0 cents per share, the total dividend for the year ended 31 December 2011 is HK11.0 cents per share, representing an increase of 3.8% from 2010. The total dividend is to adhere to the dividend payout ratio observed by the Company under normal circumstances, by paying about 35% of the profit for the year attributable to shareholders.

Preserving Growth in a Difficult Environment

During the first half of 2011, the Group experienced a relatively smooth sailing along with the Chinese economy. Not long after we entered into the second half, the Chinese economy experienced a strong head-wind when the European financial crisis began to unfold and the Chinese export sectors suffered as a result. Making matters worse, the Chinese Government's restrictive housing policies initially aimed at dampening the China property market prices began to drive down the property sales volume too. The lower property sales volume in turn drove down the furniture purchase volume.

In fact during the second half, the Group suffered its first down turn of sales in the recent years of its self operating stores located at the Tier 1 and some of the Tier 2 provincial capital cities in which we have recorded a slightly negative growth rate in the same stores' sales for the entire year. Fortunately in contrast, our same stores' sales growth was quite robust at most of the Tier 2, Tier 3 and Tier 4 cities which compose of our franchisee stores only. Likewise, the growth generated from new franchisee stores in our network was well within expectation. In short the combined growth from existing stores and new stores of these lower tier cities has effectively saved the growth rate of the Group for the entire year.

Chairman's Statement

Adding Premium to the Brand

The Group continues to position the Royal Furniture as a premium brand during 2011. We have sponsored the Shenzhen Universiade Game in which the university students around the world gathered in Shenzhen for the last two weeks of August to compete and show off their athletic best. As a sponsor and an exclusive supplier of furniture to this international event, the Group has once again positioned our brand ahead from those of our competitors just as what happened with the Beijing Olympic Game in 2008.

Due to our sponsorships in these international events, other well established furniture brands around the world often approach the Group for business co-operations or joint ventures. The first of these that came into reality in 2011 was the Treci house with which we will ultimately form a joint venture to distribute luxury Italian furniture throughout China. In light of the DaVinci incident which a local Chinese manufacturer was faking its Chinese made products as Italian made luxury furniture, the Group decided to step up its pace to meet the significant demand of luxury furniture imported from Europe. Other than Treci, the Group is currently discussing co-operations with other renounced brands from Europe to establish joint ventures in marketing and sales of their products throughout China. Such co-operations with these premium furniture brands will definitely reinforce our brand position amongst the Chinese consumers.

Future Expansion

While the Chinese government has lowered its targeted GDP growth rate to 7.5% for 2012, the various ministries and bureaus of the Government continue to emphasize the point of steering the Chinese economy from being export oriented to domestic consumptions. Recently, there were different pronouncements from the local government bureaus regarding the exchange of used furniture for new ones. Although none of them contains any specific incentive scheme for the furniture suppliers, such non-binding pronouncements are considered to be positive for the Group in general. We look forward to take advantage of any further government policy which would be enacted with favorable terms to the furniture industry.

Regarding the Group's expansion plan, it is well on schedule as our Tianjin plant has already completed its initial phase of construction. Over the next several months, it will be busy in tooling and equipment installing. We expect the Tianjin plant will be ready for commercial production by the end of August in 2012. Other than Tianjin, the Group will also expand its production facilities into Nanchang. Nevertheless, the Nanchang plant is not expected to come into production until the third quarter of 2013.

Outlook

As long as potential home buyers sit on the side-line expecting the property prices to tumble further due to more restrictive government policies ahead, there will be delays in both property and then furniture purchase transactions. The recent news of the Chinese government in relaxing its stand on the restrictive policies from which the first time home buyers if qualified would be benefiting from reductions of mortgage interest rates, are definitely encouraging to the Group. As there are great pent-up demand created in the past year in the Chinese property market, potential first time home buyers upon their return to the property market will also buy home furniture down the road.

The social housing scheme enacted by the various local governments throughout China is about to become a reality in 2012 as the first batch of such housing units are to be completed and ready for possession by the chosen owners within the coming months. This will create a huge pool of first time furniture buyers in various cities across China. Royal Furniture being a well established brand is ready to take advantage of its market position. We will encourage our dealers to open new shops in the surrounding neighborhoods of such social housing units to capture the potential sales. Thus, even though we are cautious toward the first half of 2012, we are relatively optimistic toward the second half of 2012.

Appreciation

On behalf of the Board, I would like to extend my deepest thanks to the entire management team, our business partners and franchisees and the employees of the Group. The growth of the Royale Furniture would be impossible without their effort and contributions. Likewise, I would like to express my appreciation to our shareholders, investors, customers and suppliers for their ongoing support.

TSE Kam Pang
Chairman
Hong Kong, 29 March 2012

Management Discussion & Analysis

Dividend

The Board recommends a payment of a final dividend of HK8.0 cents per share to the shareholders whose names appear on the register of members of the Company on 28 May 2012. Together with the interim dividend of HK3.0 cents per share (2010: HK1.6 cents), the total dividend for the year ended 31 December 2011 is HK11.0 cents per share (2010: HK10.6 cents), representing an increase of 3.8% from 2010. The adjusted final dividend is to adhere the dividend payout ratio observed by the Company under normal circumstances, by paying about 35% of the profit for the year attributable to shareholders. The Company intends to follow such practice in the future.

The Board also proposes for a bonus issue of shares on the basis of 1 bonus share for every 8 existing shares held by the shareholders whose names appear on the register of members of the Company on 28 May 2012, subject to the shareholders' approval.

Further details of the bonus issues (including its timetable) will be disclosed in a circular to be dispatched to the shareholders in due course.

Closure of the Register of Members

The Register of Members of the Company will be closed from 17 May 2012 to 18 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 16 May 2012.

In addition, the Register of Members of the Company will be closed from 24 May 2012 to 28 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the final dividend and proposed bonus issue. In order to qualify for the proposed bonus issue, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 May 2012.

Financial Review

The financial year of 2011 represents another record profit year for the Company on the heels of the record profit years of 2009 and 2010. The significant growth in our sales revenue together with our improved gross profit margin, made 2011 a truly remarkable year for the Group despite the relatively poor consumer sentiment in China toward the end of the year. The Group also decided to raise its wholesale prices, 7% across the board on all non-sofa products toward the end of 2011 which is evidence of our confidence to project the Group's business into the future.

For the year under review, the Group's revenue increased by 27.9% to HK$1,547.3 million (2010: HK$1,210.0 million) due to both the Group's aggressive expansion plan in the Tier 3 and 4 cities and the one-time sales generated from the Shenzhen Universiade Game. Our gross profit rose 30.5% to HK$486.6 million (2010: HK$372.8 million) with the help of an improved gross profit margin which increased 0.7 percentage points to 31.5%.

The Group's stringent cost control policies implemented in the past three years continue to yield fruitful results as they helped to contain the ever-increasing cost of sales during 2011 which was attributed mainly to the escalating prices on direct materials and to the hiking wages of direct labor. While the increase of selling and distribution costs and administrative expenses in total dollar value year over year is considered to be significant, their total as a percentage to total revenue has remained flat at 15.4% (2010: 15.6%). Overall, the Group was able to achieve another record net profit of HK$228.2 million (2010: HK$181.3 million) which represents an increase of 25.9%.

Business Review

Sales Management

During the year, the Group generated 85.2% and 14.8% of our sales from our franchisee stores together with others and self operating stores respectively. In light of a lower growth in the Tier 1 & 2 cities due to the restrictive government policies over the housing market during the year under review, the Group has been focusing its growth instead in aggressively expanding its franchisee business into the Tier 3 and 4 cities representing the frontiers of China's urbanization policy. During 2011, the Group also encouraged our franchisees to be more competitive by building larger stores and carrying more product series. In total our entire sales network has added close to 300 new stores for the year.

Since the beginning of the year, the Group has implemented a new distribution strategy by having multiple franchisees within the same city. This differs from the past when each franchisee had an exclusive dealership of all product series within that city which resulted in many product series ended up not being available for sale as most franchisees may not have the capabilities to carry more than a few product series. This strategy enabled the Group to open new stores that may not have happened without such new policy. With a more rigorous effort in managing our franchisees through a much improved sales executives to franchisees ratio, the franchisee stores during the year have achieved a satisfactory same stores' sales growth ("SSSG") rate. This growth factor has provided the major growth leg for the Group.

Our self operating stores' same stores' sales growth rate was slightly negative for the entire year. This is due to fact that in the second half of 2011, our self operating stores being located at the Tier 1 and the provincial capital cities experienced their first downturn in sales for the recent years since the 2008 Financial Tsunami. Such disappointed performance was resulted from the very effect of the restrictive housing policies targeting the upper tier cites. There was no exception for any of the Tier 1 and provincial capital cities where our self operating stores operated during the year.

Management Discussion & Analysis

In December 2011, we raised our wholesale prices for all non-sofa products, to offset the increasing costs of direct materials and wages which could adversely affect our gross profit margin if it was not carried out quickly. This wholesale price increase has been in addition to the previous price increase across the board for all products back in November 2010.

Product Development and Management

The Group has launched two new product series in 2011 compared to three in 2010. The full product series, “Dolce Vita” which is very modern in style and featured with self-closing mechanism for all drawers, was launched in March. The Group has totally redesigned the “Butterfly” series which is also modern in style, to allow the new products with much more color varieties than simply just black and white as it was originally launched back in 2010.

In light of the fast growing number of very wealthy households in China, there is a significant demand of luxury furniture imported from Europe. Thus, the Group has speed up its collaboration with Treci, a well established furniture house in Italy with over 90 years of history to source a collection of luxury furniture products made in Italy to be sold first in selected coastal cities like Wuxi and then throughout China. Unfortunately at the recent trade fair in March, the Group has discovered pirated copies of the Treci products being exhibited. We have immediately taken all legal actions to stop such blatant piracy including removal of the pirated products from the trade fair and conducted numerous press interviews to expose such outright piracy.

Production Management

For the year under review, the production volume generated directly from our three factory plants has surged significantly due to our increased sales volume from the regular customers and the one-time sales to the Shenzhen Universiade Game. This expansion of production scale allows us to achieve much better economies of scale which offset some of the ever escalating cost of the direct materials.

During the year, the Group decentralized its production management to provide more autonomy for the individual supervisors to manage their respective work crews. Such new management technique boosted labor productivity across the board and provided incentive and flexibility for various labor modules within our factories to formulate their individual work flow schedules in order to minimize their usage of the existing plant facilities. As a result, this technique has allowed the Group to achieve higher productivity while keeping the same number of factory head counts.

In 2011, the Group has been actively planning new production facilities in the two regions of Tianjin and Nanchang of the Jiangxi Province. By the end of 2011, our Tianjin plant being a joint venture with a local partner which takes up a minority equity stake of 45% in the new factory plant located at the Wuqing District of Tianjin occupying 400 mu of land, has completed the initial stage of the factory construction. It is expected that the factory will be ready up for trial production by the third quarter of 2012 upon tooling and equipment installations in the coming months. This Tianjin plant is expected to focus more on the production of bulky products such as hardwood furniture and sofas. In addition to Tianjin, the Group is also planning another plant facility in Nanchang which would focus more on panel wood products. The Nanchang plant is not expected to come into production until the third quarter of 2013. Upon reaching full production over the next several years, both of these new factories will increase the Group's current production capacity by at least 150% of our current level.

Human Resource Management

To complement our growth strategy, the Group has been actively revamping its staff and line management resources of all levels in order to support our long term expansion plan. In 2011, we recruited more wholesales account officers which are now total over 160 as compared to only 60 just 18 months ago. We expect to hire more of the same type of officers in the future as we plan to expand aggressively into Tier 3 and 4 cities over the next several years.

Capital Expenditure

In order to meet our future growth target, the Group has capital expenditure programs other than investing in the Tianjin and Nanchang plants. The Group is also committed to invest in our flagship store at Harbin. The Harbin flagship store is expected to facilitate the Group to penetrate into the growing Northeastern market of China. In addition, a training center is to be built in Guangzhou Zhengchen. As a leading retailer of furniture in China, the Group together with its franchisees employ over ten thousand store managers and sales staff all over China. We believe our ultimate services lie with this team of sales force. Thus, a state of the art training center is constructed to ensure our products and store images are being properly presented to all over China.

Liquidity and Financial Resources

The Group maintained a cash and cash equivalents amounted to HK$304.1 million as at 31 December 2011 (2010: HK$238.2 million). Although the Group's expansion plan is principally financed by cash flow from operating activities, it has raised HK$318.6 million in new loan proceeds mainly through a new syndicated bank line.

Management Discussion & Analysis

As at 31 December 2011, except for the interest bearing loans amounted to HK$413.7 million (2010: HK$95.1 million), the Group has no other bank borrowings and contingent liabilities. As at the year end, the net debt divided by capital plus net debt of the Group was 18.2% (2010: 5.6%). This still represents a low gearing ratio. Approximately, 76% of the Group's cash was denominated in Renminbi with the remaining balance denominated in Hong Kong Dollars. The exposure to currency exchange rate fluctuation has been minimal since both our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2011, the liquidity of the Group was slightly reduced as its current ratio (current assets to current liabilities) has slightly decreased to 1.84 (2010: 1.88) and the net current asset has surged to HK$384.1 million (2010: HK$315.3 million).

Prospects

The Chinese government's restrictive housing policies aimed at dampening the China property market prices in general have proven to be effective and there are signs that Government is relaxing its stands toward the first time home buyers. In light of this sort of incentive policies being implemented, the Group is more optimistic toward the second half of 2012, especially with the view that there will be much pent-up demand accumulated in the past to be satisfied.

Other than the growth to be spurred by the partial relaxation of the restrictive housing policies, the affordable social housing schemes implemented by various local governments across China in the past 2 years will finally yield fruits in 2012. There will be 10 million housing units to be completed under such a scheme. The first batch of these units will be available for possession by the owners as early as July. The Group will be working through its network of self operating stores and franchisee stores to embrace such an opportunity. Some of our new stores carrying some of our more affordable product series, will be strategically located in the surrounding neighborhoods of these affordable housing units instead of the typical furniture malls.

Overall, the urbanization policy of China continues to cause rural population to move into the county townships or Tier 3 and 4 cities. With such a government policy in mind, the Group will press on with its aggressive strategy to penetrate ever more deeply into the Tier 3 and 4 cities.

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

A. THE BOARD

Responsibilities

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

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

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

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

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

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

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

Chairman, Chief Executive Officer and Chief Operating Officer

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

Corporate Governance Report

Board Composition

The directors of the Company (the "Directors") during the year were:

Executive Directors:
Mr. Tse Kam Pang *(Chairman)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*
Mr. Zeng Lejin *(Chief Operating Officer)*
Mr. Lam Toi

Independent non-executive Directors:
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong *(resigned on 18 August 2011)*
Mr. Lau Chi Kit *(appointed on 6 September 2011)*
Mr. Yue Man Yiu Matthew *(appointed on 17 November 2011)*

The biographical details of the Directors and other senior management are disclosed in the section headed "Management Profile" on Pages 19 to 21 in this Annual Report.

Board meeting and procedure

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

Directors Attendance

Name	Number of Board meetings held during the Director's term of office in 2011	Number of meetings attended
Mr. Tse Kam Pang *(Chairman)*	4	4
Mr. Ma Gary Ming Fai *(Chief Executive Officer)*	4	4
Mr. Zeng Lejin *(Chief Operating Officer)*	4	4
Mr. Lam Toi	4	4
Dr. Donald H. Straszheim	4	4
Mr Chang Chu Fai J. Francis	4	4
Mr. Yau Chung Hong *(resigned on 18 August 2011)*	4	2
Mr. Lau Chi Kit *(appointed on 6 September 2011)*	4	1
Mr. Yue Man Yiu Matthew *(appointed on 17 November 2011)*	4	1

Board members are provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with Code provision A1.3 of the CG Code, Save as the Board meeting held on 29 March 2012, which notification was announced by the Board on 19 March 2012 in accordance with the Articles of Association of the Company due to the tight schedule of considering and approving the consolidated final results of the Company for the year ended 31 December 2011 and considering the payment of final dividends and bonus issues of shares, at least 14 days notice have been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meeting are sent to all Directors within reasonable time prior to the meetings. None of the members of the Board has any relationship (including financial, business, family or other material or relevant relationships) between each other. Directors are free to contribute alternative views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Full minutes are prepared after the meetings and will be endorsed in the subsequent Board meeting.

Mr. Chang Chu Fai, J. Francis and Dr. Donald H. Straszheim, the independent non-executive Directors of the Company, have been re-appointed for a term of three years on 18 May 2011. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

Model Code For Securities Transaction By Directors

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

B. BOARD COMMITTEES

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

Audit Committee

The Audit Committee consists of four independent non-executive Directors namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim, Mr. Chang Chu Fai J. Francis and Mr. Lau Chi Kit. The Audit Committee meets regularly, normally two times a year, with the senior financial management and meets with external auditor once a year for final result reviews.

The main duties of the Audit Committee include the following:

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

2. To review the relationship with the external auditor.

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

There were two meetings of the Audit Committee held during 2011. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	Number of Audit Committee meetings held in 2011	Number of meetings attended
Mr. Yau Chung Hong *(resigned on 18 August 2011, Chairman)*	2	1
Mr. Chang Chu Fai J. Francis	2	2
Dr. Donald H. Straszheim	2	2
Mr. Lau Chi Kit *(appointed on 6 September 2011)*	2	0
Mr. Yue Man Yiu Matthew *(appointed on 17 November 2011, Chairman)*	2	0

During 2011, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2010 and the interim results for the six months ended 30 June 2011 before they were submitted to the Board for approval. The Audit Committee met with the external auditors to discuss the results of their audit for the year ended 31 December 2010. The Committee approved the auditor's remuneration and carried out assessment of their independence. During 2011, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code on 27 August 2005. The Remuneration Committee is chaired by Mr. Chang Chu Fai J. Francis, and comprising three other members, namely Dr. Donald H.Straszheim and Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew. All the members of the Remuneration Committee are independent non-executive Directors of the Company. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are independent non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices and ensure no Director involved in deciding his own remuneration.

There was one meeting of the Remuneration Committee held in 2011. Details of the members attendance record in the year are as follows:

Directors Attendance

Name	Number of Remuneration Committee meetings held in 2011	Number of meetings attended
Mr Chang Chu Fai J. Francis *(Chairman)*	1	1
Mr. Yau Chung Hong	1	–
Dr. Donald H. Straszheim	1	1
Mr. Lau Chi Kit	1	–
Mr. Yue Man Yiu Matthew	1	–

Details of the remuneration of each Director for 2011 is set out in the Note 8 to this Annual Report.

Nomination Committee

The Company did not have a nomination committee during the financial year ended 31 December 2011, and the power to nominate or appoint additional Directors is vested in the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a Director of the Company in accordance with the articles of association of the Company and the laws of Hong Kong and the Cayman Islands.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically will follow the provisions of the articles of association of the Company which empowers the Board from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

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

During the year, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew were appointed as an independent-non Executive Director of the Company.

C. ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts during the year ended 31 December 2011, have applied them consistently with previous financial periods. The statement of our Auditors about their responsibility on the accounts is included in the Independent Auditors' Report. In support of the above, the accounts presented to the Board have been reviewed by the Executive Directors. For the annual reports and accounts, the Company's finance department is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

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

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 30 and 31 of this Annual Report.

External Auditors' Remuneration

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

Internal Controls

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

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

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

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2011 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

D. COMMUNICATION WITH SHAREHOLDERS

The AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The detailed procedures for conducting a poll will be explained at each general meetings. Registered shareholders are notified by post of the AGM. Any registered shareholder is entitled to attend and vote at the AGM, provided that his/her/its shares have been fully paid up and recorded in the register of the members of the Company. Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

E. INVESTOR RELATIONS

The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. In the year under review, the Company also communicates with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

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

F. CORPORATE GOVERNANCE ENHANCEMENT

The Company advises that it has been introducing, and continues to introduce, measures to comply with the recent changes to the Listing Rules relating to Corporate Governance Code. Enhancing corporate governance is not simply a matter of applying and complying with the Corporate Governance Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders to promote and improve our transparency are also welcome.

Directors

Executive Directors

Mr. TSE Kam Pang, aged 57, is the Chairman of the Company. He founded the Group in 1997 and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Prior to the founding of the Group, Mr. Tse previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. Mr. Tse has over 20 years of experience in the international trade and China trade business. Mr. Tse is also a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. MA Gary Ming Fai, aged 48, is the Chief Executive Officer of the Company. He is a member of the Institute of Chartered Accountants of Ontario in Canada and has worked for several years with an international accounting firm. Mr. Ma received his bachelor of commerce degree from the University of Calgary, Canada in 1985. Mr. Ma is presently the Executive President of Guangdong Furniture Chamber of Commerce and a committee member of International Furniture Association. Mr. Ma joined the Group in 2002.

Mr. ZENG Le Jin, aged 41, is the Chief Operating Officer of the Company. He graduated from the Guangdong Business College with a bachelor degree of metropolitan economy and management majoring in statistics. He joined the main subsidiary of the Company in China during 1999 and is responsible for the internal audit of the operation of the Company's major subsidiaries in China and advises on the development of their policies. He has over 10 years of experience in enterprise management.

Mr. LAM Toi, aged 49, is the co-founder of the Group. Mr. Lam is mainly responsible for product research and development of the Group. Before founding the Group in 1997, Mr. Lam has over 22 years of experience in China trade and furniture business. Mr. Lam is presently the association honourary chairman of the Furniture and Lighting All-China Federation of Industry and Commerce.

Independent Non-executive Directors

Dr. Donald H. Straszheim, aged 70, is the Senior Managing Director and Head of China Research for ISI Group. ISI Group is an independent broker-dealer, headquartered in New York City, specializing in research, sales and trading, primarily for large global institutional money managers. He holds a B.S., M.S. and Ph.D. from Purdue University, is a visiting Scholar at UCLA's Anderson School of Management, and a regular writer and commentator on economic, business and financial issues in the global media, and is a recognized China specialist. He has testified before the U.S. Congress on various economic issues. For many years he was Managing Principal of Straszheim Global Advisors, Inc., an economics, business, financial markets and public policy consultancy founded in 2001 with a focus on China. The firm had offices in America and China. From 1985 to 1997, Dr. Straszheim was the Chief Economist of Merrill Lynch and Co. ("Merrill Lynch"), in New York, guiding its world-wide economic research effort and serving as its primary economic spokesperson. He has also been the Vice Chairman of Roth Capital Partners, Chief Economist at Wharton Econometrics at the University of Pennsylvania, and Chief Economist of Weyerhaeuser Company.

Management Profile

Mr. Chang Chu Fai J. Francis, aged 57, was appointed as an Independent Non-Executive Director of the Company on 1 July 2005. He holds a Bachelor's Degree in Commerce from Concordia University in Montreal, Canada since 1976 and a Master's Degree in Business Administration from York University in Toronto, Canada since 1977. He has over thirty-three years of experience in banking, corporate finance, investment and management and has held various executive positions at financial institutions and directorships of listed companies. Mr. Chang is currently the Managing Director of Ceres Consultancy Limited and a registered person under the Securities and Futures Ordinance. He is also the deputy chairman and an independent non-executive director of Quality HealthCare Asia Limited; and an independent non-executive director of Tian An China Investments Company Limited and APAC Resources Limited. He was previously the chairman and an executive director of Trasy Gold Ex Limited, an executive director of China Financial Leasing Group Limited and the managing director of Ceres Capital Limited.

Mr. Lau Chi Kit, aged 68, retired from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region. He is a fellow of the Hong Kong Institute of Bankers ("Institute"). He was the chairman of the Institute's Executive Committee (from January 1999 to December 2000) and is currently the honorary advisor of the Institute's Executive Committee. He served as a member on a number of committees appointed by the Government of the Hong Kong Special Administration Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission's Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001). Currently, he is an independent non-executive director of Ford Glory Holdings Limited (stock code: 1682) and Chinlink International Holdings Limited (stock code: 997).

Mr. Yue Man Yiu Matthew, aged 51, has been the chief financial officer of Ko Shi Wai Holdings Limited since September 2009. He has been a director of China-Link Capital Management Limited since September 2009 and was the chief financial officer of the same firm from August 2005 to August 2009. Mr. Yue is currently an independent non-executive director of three Hong Kong listed companies, namely, China Financial Leasing Group Limited (Stock Code: 2312), Asia Cassava Resources Holdings Limited (Stock Code: 841) and China Suntien Green Energy Corporation Limited (Stock Code: 956). He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1984. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in financial control, project analysis and management functions and has the related financial expertise.

Senior Management

Mr. PANG Jim, aged 51, is the chief financial officer of the Group. He has more than 26 years of professional experience in corporate finance and accounting. Before joining the Company, he has been a partner and director of a private equity fund management and advisory firm registered in Tianjin. Prior to this, he was an investment director in the Kingsway Group, a Hong Kong-listed investment bank. He was also the corporate treasurer of NASDAQ-listed Chinadotcom Corporation and the corporate financial controller of China Strategic Holdings Limited which is listed on the Stock Exchange. Trained as a chartered accountant at PricewaterhouseCoopers in Canada, Mr. Pang also earned an MBA from the University of Windsor in Canada. He is currently a member of the Canadian Institute of Chartered Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

Ms. CHAN Wei Fun, aged 34, is the financial controller of the Group and Company Secretary of the Company. She is responsible for the financial management, accounting and company secretarial duties of the Group. She graduated from the Chinese University of Hong Kong with a bachelor degree in business administration. She is an associate member of the Hong Kong Institute of Certified Public Accountants and the member of American Institute of CPAs. She has over 13 years of experience in auditing, accounting and financial management in the international accounting firm and listed companies. She joined the Group in 2010.

Mr. WU Yuan Cheng, aged 38, is the financial controller of the PRC operation and joined the Group in 1999. He is responsible for the Group's accounting and financial management in the PRC. He graduated from Southwest Agricultural University majoring in accounting and auditing. He has several years of experience in financial management, accounting and corporate administration.

Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2011 to the shareholder of the Company.

Principal Activities

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

Results and Dividends

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 107.

Interim dividend of HK3.0 cents per share was declared and paid during the year. The directors recommend the payment of a final dividend of HK8.0 cents per ordinary share (note 12) in respect of the year, to shareholders whose names appear on the register of members on 28 May 2012. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

The directors also proposed the bonus issue on the basis of one (1) bonus share for every eight (8) existing shares held by the shareholders whose names appear on the register of members on 28 May 2012. The bonus issue will be credited as fully paid by way of capitalisation of an amount in the retained profits account of the Company.

Summary Financial Information

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 108. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

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

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 to the financial statements.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$129.3 million of which HK$54.6 million has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$614.9 million may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group did not make any charitable contributions (2010: HK$Nil).

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 4.32% of the total sales for the year and sales to the largest customer included therein amounted to 1.30%. Purchases from the Group's five largest suppliers accounted for approximately 12.77% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 3.04%.

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

Report of the Directors

Directors

The Directors of the Company during the year were:

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

Independent non-executive Directors:
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong *(resigned on18 August 2011)*
Mr. Lau Chi Kit *(appointed on 6 September 2011)*
Mr. Yue Man Yiu Matthew *(appointed on 17 November 2011)*

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

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

The Company has received annual confirmations of independence from Dr. Donald H. Straszheim, Mr. Chang Chu Fai J. Francis, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew as at the date of this report still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors and the senior management of the Group are set out on pages 19 and 21 of the annual report.

Directors' Service Contracts

Mr. Tse Kam Pang and Mr. Lam Toi have entered into service agreements with the Company for an initial term of two years commencing from 1 May 2002, respectively, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other. Mr. Ma Ming Fai, Gary has entered into a service agreement with the Company for a term of two years commencing from 21 January 2005, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other. Mr. Zeng Lejin, has entered into a service agreement with the Company for a term of two years commencing from 19 April 2010, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other.

Mr. Chang Chu Fai J. Francis and Dr. Donald H. Straszheim, independent non-executive Directors, have also entered into letters of appointment with the Company commencing from 18 May 2011 and shall continue for a term of 3 years therefrom unless otherwise agreed.

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

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

Directors' Remuneration

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

Directors' Interests in Contracts

None of the Directors had a material interest in any contract of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of the Directors and chief executive in the shares (the "Shares") and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) Long positions in shares and underlying shares of the Company:

		Number of Shares and underlying Shares held, capacity and nature of interest			
Name of director	Notes	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Kam Pang	(a)	24,838,234	234,434,988	259,273,222	38.00
Mr. Ma Ming Fai, Gary	(b), (d)	13,611,248	5,079,385	18,690,633	2.74
Mr. Zeng Lejin	(c), (d)	4,872,000	–	4,872,000	0.71
Dr. Donald H. Straszheim	(d)	1,000,000	–	1,000,000	0.15
Mr. Chang Chu Fai J. Francis	(d)	750,000	–	750,000	0.11
Mr. Lau Chi Kit	(d)	1,000,000	–	1,000,000	0.15
Mr. Yue Man Yiu Matthew	(d)	1,000,000	–	1,000,000	0.15

Notes:

(a) Of these 234,434,988 Shares, 110,127,479 Shares are held by Crisana International Inc. ("Crisana") and 124,307,509 Shares are held by Charming Future Holdings Limited ("Charming Future"), both are companies wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the aggregate of 234,434,988 Shares held by these companies.

(b) Of these 5,079,385 shares, 2,697,000 Shares are held by Upwise Investments Limited ("Upwise"), a company incorporated in the British Virgin Islands and 2,382,385 shares held by Ms. Hung Fung King, Margret. The entire issued share capital of Upwise is owned by Mr. Ma Gary Ming Fai. Ms. Hung Fung King, Margret is Mr. Ma Ming Fai, Gary Ming Fai's wife.

(c) The 2,272,000 Shares are directly beneficially owned by Zeng Lejin.

(d) These represent Shares to be issued upon exercise of the share options granted to them, details of which are set out in note 31 to the financial statement.

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

Save as disclosed above, as at 31 December 2011, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Interest in Competing Business

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

Directors' Rights to Acquire Shares

Save as disclosed in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares

At 31 December 2011, the following persons who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Crisana	(a)	Directly beneficially owned	110,127,479	16.14%
Charming Future	(b)	Directly beneficially owned	124,307,509	18.22%

Notes:

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

(b) Charming Future is wholly owned by Mr. Tse Kam Pang, a director.

As disclosed in the disclosure of interests form filed by Value Partners Limited on 6 September 2011, 63,902,448 shares (representing approximately 9.37% of the issued share capital of the Company as at the report date) were held by Value Partners Limited in its capacity as an investment manager. These 63,902,448 shares as referered to in this note represent the same block of shares in which all the relevant parties as described below are deemed under the SFO to be interested.

Report of the Directors

Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 28.69% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hand Seng Bank Trustee International Limited (as trustee of the C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust while To Hau Yin is the Spouse of Cheah Cheng Hye.

Save as disclosed above, as at 31 December 2011, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Sufficiency of Public Float

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

Employment and Remuneration Policy

The total number of employees of the Group as at 31 December 2011 was 3,800 (2010: 3,800). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2011, there were 39,250,000 outstanding share options.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 11 to 18.

Audit Committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the four independent non-executive Directors of the Company. The financial statements of the Group and of the Company for the year ended 31 December 2011 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

Events after the Reporting Period

Details of significant events occurring after the reporting period are set out in note 40 to the financial statements.

Auditors

Ernst & Young retire and offer themselves for reappointment as auditors of the Company.

ON BEHALF OF THE BOARD

Tse Kam Pang
Chairman and Executive Director

Hong Kong
29 March 2012

Independent Auditors' Report

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

We have audited the consolidated financial statements of Royale Furniture Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**1,547,318**	1,210,005
Cost of sales		**(1,060,671)**	(837,213)
Gross profit		**486,647**	372,792
Other income and gains	5	**10,404**	17,488
Selling and distribution costs		**(155,739)**	(127,459)
Administrative expenses		**(83,270)**	(61,541)
Finance costs	7	**(7,405)**	(3,483)
Share of profits of associates		**5,216**	6,330
PROFIT BEFORE TAX	6	**255,853**	204,127
Income tax expense	10	**(21,537)**	(13,422)
PROFIT FOR THE YEAR		**234,316**	190,705
Attributable to:			
Owners of the Company		**228,241**	181,253
Non-controlling interests		**6,075**	9,452
		234,316	190,705
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**34.33 cents**	32.80 cents
Diluted		**33.28 cents**	31.17 cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**234,316**	190,705
OTHER COMPREHENSIVE INCOME			
Gain on property revaluation	14	**134,183**	–
Income tax effect	29	**(33,546)**	–
		100,637	–
Changes in fair value of available-for-sale investments, net of tax	20	**(1,434)**	(976)
Exchange differences on translation of foreign operations		**35,181**	22,786
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**134,384**	21,810
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**368,700**	212,515
Attributable to:			
Owners of the Company		**361,361**	203,008
Non-controlling interests		**7,339**	9,507
		368,700	212,515

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,120,640**	520,329
Prepaid land lease payments	15	**144,376**	93,698
Goodwill	16	**123,137**	64,427
Intangible assets	17	**2,344**	3,178
Investments in associates	19	**56,816**	49,910
Available-for-sale investments	20	**6,022**	7,456
Other non-current assets	21	**–**	69,890
Total non-current assets		**1,453,335**	808,888
CURRENT ASSETS			
Inventories	22	**255,293**	215,370
Trade receivables	23	**76,804**	54,569
Prepayments, deposits and other receivables	24	**186,799**	164,795
Pledged deposits	25	**20,000**	–
Cash and cash equivalents	25	**304,135**	238,199
Total current assets		**843,031**	672,933
CURRENT LIABILITIES			
Trade payables	26	**88,075**	101,928
Other payables and accruals	27	**124,539**	105,308
Interest-bearing bank loans	28	**149,054**	72,288
Tax payable		**97,219**	78,116
Total current liabilities		**458,887**	357,640
NET CURRENT ASSETS		**384,144**	315,293
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,837,479**	1,124,181

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,837,479**	1,124,181
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	28	**264,700**	22,903
Deferred tax liabilities	29	**34,377**	849
Total non-current liabilities		**299,077**	23,752
Net assets		**1,538,402**	1,100,429
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**68,232**	63,788
Reserves	32(a)	**1,328,480**	956,971
Proposed final dividend	12	**54,610**	57,409
		1,451,322	1,078,168
Non-controlling interests		**87,080**	22,261
Total equity		**1,538,402**	1,100,429

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000 (Note 30)	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		46,676	204,037	3,036	–	–	–	98,532	220,075	45,470	617,826	4,528	622,354
Profit for the year		–	–	–	–	–	–	–	181,253	–	181,253	9,452	190,705
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	20	–	–	–	–	(976)	–	–	–	–	(976)	–	(976)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	22,731	–	–	22,731	55	22,786
Total comprehensive income for the year		–	–	–	–	(976)	–	22,731	181,253	–	203,008	9,507	212,515
Final 2009 dividend declared		–	–	–	–	–	–	–	(2,056)	(45,470)	(47,526)	–	(47,526)
Acquisition of a subsidiary	30	6,818	68,180	–	–	–	–	–	–	–	74,998	12,754	87,752
Acquisition of non-controlling interests	30	2,419	49,581	–	–	–	–	–	(47,472)	–	4,528	(4,528)	–
Equity-settled share option expense	31	–	–	15,161	–	–	–	–	–	–	15,161	–	15,161
Share options exercised	30	375	2,249	(674)	–	–	–	–	–	–	1,950	–	1,950
Issue of shares	30	7,500	219,750	–	–	–	–	–	–	–	227,250	–	227,250
Share issued expenses	30	–	(10,065)	–	–	–	–	–	–	–	(10,065)	–	(10,065)
Interim 2010 dividend declared	12	–	–	–	–	–	–	–	(8,962)	–	(8,962)	–	(8,962)
Proposed final 2010 dividend	12	–	–	–	–	–	–	–	(57,409)	57,409	–	–	–
Transfer from retained profits		–	–	–	–	–	2,426	–	(2,426)	–	–	–	–
At 31 December 2010		63,788	533,732*	17,523*	–*	(976)*	2,426*	121,263*	283,003*	57,409	1,078,168	22,261	1,100,429

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000 (Note 30)	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		63,788	533,732	17,523	–	(976)	2,426	121,263	283,003	57,409	1,078,168	22,261	1,100,429
Profit for the year		–	–	–	–	–	–	–	228,241	–	228,241	6,075	234,316
Other comprehensive income for the year:													
Gains on property revaluation, net of tax		–	–	–	100,637	–	–	–	–	–	100,637	–	100,637
Change in fair value of available-for-sale investments, net of tax	20	–	–	–	–	(1,434)	–	–	–	–	(1,434)	–	(1,434)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	33,917	–	–	33,917	1,264	35,181
Total comprehensive income for the year		–	–	–	100,637	(1,434)	–	33,917	228,241	–	361,361	7,339	368,700
Final 2010 dividend declared		–	–	–	–	–	–	–	–	(57,409)	(57,409)	–	(57,409)
Shares issued in lieu of dividend	30(b)	1,547	48,998	–	–	–	–	–	–	–	50,545	–	50,545
Equity-settled share option expense	31	–	–	12,939	–	–	–	–	–	–	12,939	–	12,939
Share options exercised	30(a)	2,897	32,210	(8,919)	–	–	–	–	–	–	26,188	–	26,188
Capital injection in a new subsidiary		–	–	–	–	–	–	–	–	–	–	61,695	61,695
Dividend paid to non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	(4,215)	(4,215)
Interim 2011 dividend declared	12	–	–	–	–	–	–	–	(20,470)	–	(20,470)	–	(20,470)
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(54,610)	54,610	–	–	–
Transfer from retained profits		–	–	–	–	–	1,865	–	(1,865)	–	–	–	–
At 31 December 2011		68,232	614,940*	21,543*	100,637*	(2,410)*	4,291*	155,180*	434,299*	54,610	1,451,322	87,080	1,538,402

* These reserve accounts comprise the consolidated reserves of HK$1,328,480,000 (2010: HK$956,971,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**255,853**	204,127
Adjustments for:			
Finance costs	7	**7,405**	3,483
Share of profits of associates		**(5,216)**	(6,330)
Bank interest income	5	**(782)**	(346)
Interest income from an associate	5	**(2,147)**	(2,117)
Loss/(gain) on disposal of items of property, plant and equipment	6	**1,829**	(117)
Depreciation	6	**57,727**	45,919
Recognition of prepaid land lease payments	6	**2,616**	1,397
Amortisation of intangible assets	6	**966**	931
Equity-settled share option expense	31	**12,939**	15,161
		331,190	262,108
Increase in inventories		**(33,175)**	(90,219)
Increase in trade receivables		**(21,148)**	(14,053)
Increase in prepayments, deposits and other receivables		**(28,056)**	(15,041)
Increase in amount due from an associate		**(1,690)**	(1,213)
(Decrease)/increase in trade payables		**(14,332)**	28,082
Increase/(decrease) in other payables and accruals		**15,090**	(17,336)
Decrease in amount due to an associate		**–**	(2,454)
Cash generated from operations		**247,879**	149,874
Income taxes paid		**(2,452)**	(1,381)
Net cash flows from operating activities		**245,427**	148,493

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,929**	2,463
Decrease/(increase) in the loans to an associate		**12,728**	(24,840)
Purchases of items of property, plant and equipment	14	**(504,603)**	(157,300)
Additions to prepaid land lease payments	15	**(50,042)**	(26,794)
Proceeds from disposal of items of property, plant and equipment		**3,035**	4,256
Acquisition of subsidiaries		**–**	1,469
Increase in pledged deposits	25	**(20,000)**	–
Acquisition of the retails shops	33	**907**	(69,890)
Proceeds from disposal of derivative financial instruments		**–**	14,000
Net cash flows used in investing activities		**(555,046)**	(256,636)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30(a)	**26,188**	229,200
Share issue expenses	30	**–**	(10,065)
Capital injection in a subsidiary from the non-controlling shareholder		**61,695**	–
Dividend paid to the non-controlling shareholder		**(4,215)**	–
New bank loans		**440,207**	70,590
Repayment of bank loans		**(121,644)**	(1,498)
Interest paid		**(7,405)**	(3,483)
Dividends paid		**(27,334)**	(56,488)
Net cash flows from financing activities		**367,492**	228,256
NET INCREASE IN CASH AND CASH EQUIVALENTS		**57,873**	120,113
Cash and cash equivalents at beginning of year		**238,199**	113,695
Effect of foreign exchange rate changes, net		**8,063**	4,391
CASH AND CASH EQUIVALENTS AT END OF YEAR		**304,135**	238,199
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**304,135**	238,199
Cash and cash equivalents as stated in the consolidated statement of financial position		**304,135**	238,199
Cash and cash equivalents as stated in the consolidated statement of cash flows		**304,135**	238,199

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**1,074,088**	748,474
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**4,150**	10,066
Cash and cash equivalents	25	**141**	262
Total current assets		**4,291**	10,328
CURRENT LIABILITY			
Other payables	27	**859**	200
NET CURRENT ASSETS		**3,432**	10,128
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,077,520**	758,602
NON-CURRENT LIABILITY			
Interest-bearing bank loans	28	**243,495**	–
Net assets		**834,025**	758,602
EQUITY			
Issued capital	30	**68,232**	63,788
Reserves	32(b)	**711,183**	637,405
Proposed final dividend	12	**54,610**	57,409
Total equity		**834,025**	758,602

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

1. Corporate Information

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

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

In the opinion of the directors, the immediate and ultimate holding companies of the Group are Crisana International Inc. and Charming Future Holding Limited, which were incorporated in the British Virgin Islands.

2.1 Basis of Preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010 (Include other standards as appropriate)*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 36 to the consolidated financial statements.

2.2 Changes in Accounting Policy and Disclosures (continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKFRS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investment in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

2.4 Summary of Significant Accounting Policies (continued)

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, goodwill and non-current assets), 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 charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period 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/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair values as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licenses

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over its estimated useful life of 8 to 10 years.

Research and development costs

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

2.4 Summary of Significant Accounting Policies (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs.

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

The Group's financial assets include cash and cash equivalents, trade and other receivables and available-for-sale investments.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to the income statement in other expenses. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In the case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing loans.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in values and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it its probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recgonised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

2.4 Summary of Significant Accounting Policies (continued)

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial model, further details of which are given in note 31 to the financial statements.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Pension schemes

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended uses, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. Significant Accounting Judgements and Estimates

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

3. Significant Accounting Judgements and Estimates (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors in respect of as earnings, from its 2008 or thereafter, shall be subject to withholding corporate income tax at a rate of 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 1 January 2008 and makes decisions on such dividend distributions based on the senior management's judgement. For details, please refer to note 29 to the financial statements.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was HK$123,317,000 (2010: HK$64,427,000). Further details are given in note 16 to the financial statements.

Write-down of inventories

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

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

The impairment of trade receivables is made based on the assessment of the recoverability of the trade receivables. The identification of doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the receivables and the impairment/write-back of trade receivables in the period in which the estimate has been changed. At 31 December 2011, impairment losses of HK$12,387,000 have been recognised for trade receivables (2010: HK$9,242,000). Further details are given in note 23 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the options, volatility and dividend yield and making assumptions about them. The assumptions and models used for the estimation of the fair value for share-based payments are disclosed in note 31 to the financial statements.

4. Operating Segment Information

For management purpose, the management does not review the performance of the business in franchise option and self-operating stores separately, but consider there is only one of segment which is manufacture and sales of home furniture. Such changes have been restated for comparative amounts in prior years. All of the Group's products are of a similar nature and subject to similar risk.

Information about a major customer

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year (2010: Nil).

5. Revenue, Other Income and Gains

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

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

	2011 **HK$'000**	2010 HK$'000
Revenue		
Sale of goods	**1,547,318**	1,210,005
Other income and gains		
Bank interest income	**782**	346
Gain on disposal of items of property, plant and equipment	**–**	117
Interest income from an associate	**2,147**	2,117
Reversal of impairment of trade receivables	**–**	2,660
Sales of scraps	**7,475**	12,248
	10,404	17,488

6. Profit Before Tax

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

	Notes	**2011 HK$'000**	2010 HK$'000
Cost of inventories sold		**1,057,328**	836,129
Depreciation of items of property, plant and equipment	14	**57,727**	45,919
Recognition of prepaid land lease payments	15	**2,616**	1,397
Amortisation of intangible assets*	17	**966**	931
Loss/(gain) on disposal of items of property, plant and equipment		**1,829**	(117)
Research and development costs*		**11,859**	6,416
Minimum lease payments under operating leases:			
Land and buildings		**56,169**	54,406
Auditors' remuneration		**1,980**	1,920
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**162,431**	143,538
Equity-settled share option expense		**11,472**	12,223
Pension scheme contributions		**8,221**	2,615
		182,124	158,376
Impairment/(reverse of impairment) of trade receivables	23	**2,951**	(2,660)
Write-down of inventories to net realisable value**		**3,343**	1,084
Bank interest income		**(782)**	(346)
Interest income from an associate		**(2,147)**	(2,117)

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

** The write-down of inventories to net realisable value has been included in the "Cost of sales" on the face of the consolidated income statement.

7. Finance Costs

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on bank loans:		
Wholly repayable within five years	**6,895**	2,801
Wholly repayable over five years	**510**	682
	7,405	3,483

8. Directors' Remuneration

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

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	**2,009**	1,892
Other emoluments:		
Salaries, allowances and benefits in kind	**11,076**	9,344
Equity-settled share option expense	**1,467**	2,938
	14,552	14,174

During the year, two directors of the Company were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. Directors' Remuneration (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2011				
Executive directors:				
Mr. Tse Kam Pang	300	3,600	1,264	5,164
Mr. Lam Toi	300	2,592	–	2,892
Mr. Ma Ming Fai, Gary	300	3,024	–	3,324
Mr. Zeng Le Jin	300	1,860	–	2,160
	1,200	11,076	1,264	13,540
Independent non-executive directors:				
Dr. Donald H.Straszheim	312	–	–	312
Mr. Yau Chung Hong	151	–	–	151
Mr. Chang Chu Fai, Johnson. Francis	240	–	–	240
Mr. Lau Chi Kit	77	–	142	219
Mr. Yue Man Yiu, Matthew	29	–	61	90
	809	–	203	1,012
	2,009	11,076	1,467	14,552

8. Directors' Remuneration (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2010				
Executive directors:				
Mr. Tse Kam Pang	300	3,300	2,594	6,194
Mr. Lam Toi	300	2,592	–	2,892
Mr. Ma Ming Fai,Gary	300	2,592	86	2,978
Mr. Zeng Le Jin	200	860	–	1,060
	1,100	9,344	2,680	13,124
Independent non-executive directors:				
Dr. Donald H.Straszheim	312	–	86	398
Mr. Yau Chung Hong	240	–	86	326
Mr. Chang Chu Fai, Johnson. Francis	240	–	86	326
Mr. Lau Chi Kit	–	–	–	–
Mr. Yue Man Yiu, Matthew	–	–	–	–
	792	–	258	1,050
	1,892	9,344	2,938	14,174

9. Five Highest Paid Employees

The five highest paid employees during the year included four (2010: four) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the non-director, highest paid employee for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**900**	675
Performance related bonuses	**30**	30
Equity-settled share option expense	**449**	636
Pension scheme contributions	**–**	9
	1,379	1,350

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	1
	1	1

10. Income Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2011	2010
	HK$'000	HK$'000
Group:		
Current – PRC corporate income tax	**21,555**	13,433
Deferred (note 29)	**(18)**	(11)
	21,537	13,422

10. Income Tax (continued)

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

	Group			
	2011		2010	
	HK$'000	**%**	HK$'000	%
Profit before tax	**255,853**		204,127	
Tax at the applicable tax rate at 25% (2010: 25%)	**63,963**	**25.0**	51,032	25.0
Lower income tax rates for specific provinces or enacted by local authority	**(46,905)**	**(18.3)**	(38,189)	(18.8)
Profits attributable to associates	**(1,304)**	**(0.5)**	(1,044)	(0.5)
Income not subject to tax	**–**	**–**	(665)	(0.3)
Expenses not deductible for tax	**4,107**	**1.6**	327	0.2
Tax losses not recognised	**4,197**	**1.6**	4,684	2.3
Tax losses utilised	**(2,521)**	**(1.0)**	(2,723)	(1.3)
Tax charge at the Group's effective rate	**21,537**	**8.4**	13,422	6.6

The share of tax attributable to associates amounting to HK$1,025,000 (2010: HK$990,000), is included in "Share of profits of associates" in the consolidated income statement.

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$56,175,000 (2010: HK$47,089,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2011.

Under Decree – Law no. 58/99/M, companies in Macau incorporated under that Decree – Law (referred to as the "58/99/M Companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. Sinofull Macau Commercial Offshore Limited ("Sino Full"), a subsidiary of the Group, is qualified as a 58/99/M company.

10. Income Tax (continued)

According to the Income Tax Law of the PRC on enterprises with foreign investment and foreign enterprises, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), Guangzhou Full Fat Furniture Limited ("Fufa"), Guangzhou Yufa Furniture Company Limited ("Yufa"), Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply (Dongguan) Furniture Limited ("Simply"), wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a corporate income tax rate of 25%. These subsidiaries are also exempted from PRC corporate income tax for the first two profitable years of their operations and are eligible to a 50% reduction in PRC corporate income tax for the following three years.

The current year income tax rate for Wanlibao, Simply and Fufa was 25%. The tax rate for Yufa and Fuli was 12.5% as they were in their fourth profit-making year.

11. Profit Attributable to Owners of the Company

The profits attributable to owners of the Company for the year ended 31 December 2011 includes a profit of HK$63,630,000 (2010: HK$86,388,000), which has been dealt with in the financial statements of the Company (note 32(b)).

12. Dividends

	Group	
	2011	2010
	HK$'000	HK$'000
Interim – HK3 cents (2010: HK1.6 cents) per ordinary share	**20,470**	8,962
Proposed final – HK8.0 cents (2010: HK9.0 cents) per ordinary share	**54,610**	57,409
	75,080	66,371

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

13. Earnings per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 664,836,334 (2010: 552,586,833) in issue during the year.

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

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

	2011	2010
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**228,241**	181,253

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**664,836,334**	552,586,833
Effect of dilution – weighted average number of ordinary shares:		
Share options	**20,949,715**	28,867,649
	685,786,049	581,454,482

14. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011							
At 31 December 2010 and at 1 January 2011:							
Cost or valuation	399,645	29,237	151,316	17,418	15,951	109,112	722,679
Accumulated depreciation	(81,278)	(15,297)	(81,235)	(13,361)	(11,179)	–	(202,350)
Net carrying amount	318,367	13,940	70,081	4,057	4,772	109,112	520,329
At 1 January 2011, net of accumulated depreciation	318,367	13,940	70,081	4,057	4,772	109,112	520,329
Additions	3,588	23,369	30,130	2,135	4,184	441,197	504,603
Acquisition of the retail shops (note 33)	1,641	–	–	–	–	–	1,641
Disposals	(2,613)	(495)	(760)	(369)	(627)	–	(4,864)
Depreciation provided during the year	(21,963)	(17,149)	(15,047)	(1,773)	(1,795)	–	(57,727)
Transfers	5,615	–	–	–	–	(5,615)	–
Surplus on revaluation	134,183	–	–	–	–	–	134,183
Exchange realignment	13,882	678	3,537	177	206	3,995	22,475
At 31 December 2011, net of accumulated depreciation	452,700	20,343	87,941	4,227	6,740	548,689	1,120,640
At 31 December 2011:							
Cost or valuation	452,700	53,536	183,595	19,855	18,763	548,689	1,277,138
Accumulated depreciation	–	(33,193)	(95,654)	(15,628)	(12,023)	–	(156,498)
Net carrying amount	452,700	20,343	87,941	4,227	6,740	548,689	1,120,640
Analysis of cost or valuation:							
At cost	–	53,536	183,595	19,855	18,763	548,689	824,438
At valuation	452,700	–	–	–	–	–	452,700
	452,700	53,536	183,595	19,855	18,763	548,689	1,277,138

14. Property, Plant and Equipment (continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010							
At 31 December 2009 and at 1 January 2010:							
Cost or valuation	365,180	15,159	128,934	14,487	13,272	8,497	545,529
Accumulated depreciation	(58,735)	(10,568)	(68,676)	(11,636)	(9,714)	–	(159,329)
Net carrying amount	306,445	4,591	60,258	2,851	3,558	8,497	386,200
At 1 January 2010, net of accumulated depreciation	306,445	4,591	60,258	2,851	3,558	8,497	386,200
Additions	4,375	15,976	19,263	2,491	2,928	112,267	157,300
Acquisition of subsidiaries	–	1,270	2,169	136	188	9,567	13,330
Disposals	–	(355)	(1,624)	(32)	(243)	(1,885)	(4,139)
Depreciation provided during the year	(20,753)	(7,762)	(14,142)	(1,493)	(1,769)	–	(45,919)
Transfers	18,571	–	1,866	–	–	(20,437)	–
Exchange realignment	9,729	220	2,291	104	110	1,103	13,557
At 31 December 2010, net of accumulated depreciation	318,367	13,940	70,081	4,057	4,772	109,112	520,329
At 31 December 2010:							
Cost or valuation	399,645	29,237	151,316	17,418	15,951	109,112	722,679
Accumulated depreciation	(81,278)	(15,297)	(81,235)	(13,361)	(11,179)	–	(202,350)
Net carrying amount	318,367	13,940	70,081	4,057	4,772	109,112	520,329
Analysis of cost or valuation:							
At cost	–	29,237	151,316	17,418	15,951	109,112	323,034
At valuation	399,645	–	–	–	–	–	399,645
	399,645	29,237	151,316	17,418	15,951	109,112	722,679

14. Property, Plant and Equipment (continued)

The Group's buildings were revalued individually at the end of the reporting period by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer, at an aggregate open market value of HK$452,700,000 based on their existing use. A revaluation surplus of HK$134,183,000 resulting from the above valuations have been credited to other comprehensive income.

At 31 December 2011, certain of the Group's buildings located in Hong Kong and Mainland China with a net carrying value of approximately HK$398,700,000 (2010: HK$62,699,000) were pledged to secure general banking facilities granted to the Group (note 28).

15. Prepaid Land Lease Payments

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 January	**95,873**	38,289
Additions during the year	**50,042**	26,794
Acquisition of a subsidiary	**–**	29,960
Recognised during the year	**(2,616)**	(1,397)
Exchange realignment	**4,511**	2,227
Carrying amount at 31 December	**147,810**	95,873
Current portion included in prepayments, deposits and other receivables	**(3,434)**	(2,175)
Non-current portion	**144,376**	93,698

The Group's leasehold lands are situated in Mainland China and are held under the following lease terms:

	2011	2010
	HK$'000	HK$'000
Long term lease	**101,684**	51,625
Medium term lease	**42,692**	42,073
	144,376	93,698

At 31 December 2011, a parcel of the Group's leasehold land situated in Mainland China with a net carrying value of approximately HK$38,633,000 (2010: Nil) were pledged to secure certain of the Group's bank loans (notes 28).

16. Goodwill

Group

	HK$'000
At 1 January 2010:	
Cost	116,345
Accumulated impairment	(116,345)
Net carrying amount	–
Cost at 1 January 2010, net of accumulated impairment	–
Acquisition of subsidiaries	64,427
At 31 December 2010	64,427
At 1 January 2011	
Cost	180,772
Accumulated impairment	(116,345)
Net carrying amount	64,427
Cost at 1 January 2011, net of accumulated impairment	64,427
Acquisition of the retail shops (note 33)	58,710
At 31 December 2011	123,137
At 1 January 2011:	
Cost	239,482
Accumulated impairment	(116,345)
Net carrying amount	123,137

16. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is related to the home furniture cash-generating units for impairment testing.

The recoverable amount of the franchise operation cash-generating units was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15% and cash flows beyond the five-year period were extrapolated using a growth rate of 3.5%.

Key assumptions were used in the value in use calculation of the home furniture cash-generating units for 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant unit.

The values assigned to the key assumptions are consistent with external information sources.

17. Intangible Assets

Group

	Licence rights of trademarks	
	2011	2010
	HK$'000	HK$'000
At 1 January:		
Cost	**8,022**	8,018
Accumulated amortisation	**(4,844)**	(4,046)
Net carrying amount	**3,178**	3,972
Cost at 1 January, net of accumulated amortisation	**3,178**	3,972
Acquisition of a subsidiary during the year	**–**	4
Amortisation provided during the year	**(966)**	(931)
Exchange realignment	**132**	133
Cost at 31 December, net of accumulated amortisation	**2,344**	3,178
At 31 December:		
Cost	**8,355**	8,022
Accumulated amortisation	**(6,011)**	(4,844)
Net carrying amount	**2,344**	3,178

18. Investments in Subsidiaries

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**91,744**	91,744
Loans to subsidiaries	**963,555**	648,964
Capital contribution in respect of employee share-based compensation	**18,789**	7,766
	1,074,088	748,474

In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

18. Investments in Subsidiaries (continued)

Particulars of the principal subsidiaries directly or indirectly held by the Company as at 31 December 2011 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1,000	100	–	Investment holding
Hong Kong Royale Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary US$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Investment holding and trading of furniture
Wanlibao*	PRC	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacture and trading of furniture
Fufa*	PRC	Mainland China	Paid-up registered HK$26,000,000	–	100	Manufacture and trading of furniture
Simply*	PRC	Mainland China	Paid-up registered HK$18,000,000	–	100	Manufacture and trading of furniture
Yufa*	PRC	Mainland China	Paid-up registered HK$50,800,000	–	100	Manufacture and trading of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macao	Ordinary US$1	–	100	Trading of furniture
Fuli*	PRC	Mainland China	Ordinary HK$65,000,000	–	100	Manufacture and trading of furniture
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Investment holding
Signature Industries Limited	BVI	Mainland China	Ordinary HK$31,000,000	–	87.5	Manufacture and sale of sofas
Beijing Yufa Furniture Company Limited ("Beijing Yufa")	PRC	Mainland China	Ordinary RMB2,000,000	–	50**	Manufacture and sale of furniture
Beauty City Holdings Limited	BVI	Hong Kong	Ordinary HK$1	–	100	Investment holding

18. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangxi Furun Furniture Company Limited*	PRC	Mainland China	Ordinary US$15,000,000	–	100	Manufacture and trading of furniture
Harbin Royale Furniture Company Limited*	PRC	Mainland China	Ordinary HK$20,000,000	–	100	Sales of furniture
Tianjin Royale Furniture Company Limited	PRC	Mainland China	Ordinary RMB150,000,000	–	55	Manufacture and trading of furniture

* These subsidiaries are registered as a wholly-foreign-owned enterprise under the PRC law.

** The Group has obtained the voting power to appoint and remove the majority of the board of directors of Beijing Yufa based on the assignment of voting rights from the other shareholder of Beijing Yufa to the Group. Hence, Beijing Yufa is controlled by the Group and is consolidated in the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. Investments in Associates

	Group 2011 HK$'000	2010 HK$'000
Share of net assets	**30,040**	24,824
Goodwill on acquisition	**18,307**	18,307
	48,347	43,131
Due from an associate	**8,469**	6,779
	56,816	49,910

Balances with an associate are unsecured, interest free and have no fixed terms of repayment.

19. Investments in Associates (continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
Grandeur Industries Limited*	Ordinary HK$10,000	Hong Kong	38	Manufacture and sale of mattresses
Gold Power International Co., Ltd.*	Ordinary shares US$1 each	BVI	40	Investment activities and retail of furniture

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

The Group's shareholdings in the associates are held through two wholly-owned subsidiaries of the Company, respectively.

The financial years of the above associates are coterminous with that of the Group. All the above associates have been accounted for using the equity method in the financial statements.

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

	2011 HK$'000	2010 HK$'000
Assets	**157,248**	135,709
Liabilities	**97,750**	86,725
Revenue	**142,350**	133,216
Profit	**15,619**	17,172

20. Available-for-sale Investments

	Group	
	2011	2010
	HK$'000	HK$'000
Listed equity investments, at fair value – Hong Kong	**6,022**	7,456

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$1,434,000 (2010: HK$976,000).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices.

21. Other Non-current Assets

As at 31 December 2010, the balance of other non-current assets represented the prepayment for the purchase of some retail shops in Mainland China (notes 33).

22. Inventories

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**71,774**	68,367
Work in progress	**21,193**	24,866
Finished goods	**162,326**	122,137
	255,293	215,370

23. Trade Receivables

	Group	
	2011	2010
	HK$'000	HK$'000
Trade receivables	**89,191**	63,811
Impairment	**(12,387)**	(9,242)
	76,804	54,569

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balance. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**35,507**	28,037
31 to 90 days	**17,711**	14,343
91 to 180 days	**21,545**	6,797
Over 180 days	**2,041**	5,392
	76,804	54,569

23. Trade Receivables (continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**9,242**	11,902
Impairment losses recognised/(reversed) (note 6)	**2,951**	(2,660)
Write off	**(257)**	–
Exchange realignment	**451**	–
At 31 December	**12,387**	9,242

An aged analysis of the trade receivables that are not individually or collectively considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**53,218**	42,380
One to three months past due	**21,545**	6,797
Over three months past due	**2,041**	5,392
	76,804	54,569

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

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

24. Prepayments, Deposits and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**34,336**	24,716	**4,150**	–
Deposits	**8,782**	5,607	**–**	–
Loans to an associate	**18,657**	31,385	**–**	–
Other receivables	**125,024**	103,087	**–**	10,066
	186,799	164,795	**4,150**	10,066

The loans to an associate are unsecured, bear interest at a rate of 7.5% per annum and have no fixed terms of repayment.

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

25. Cash and Cash Equivalents

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**304,135**	238,199	**141**	262
Time deposits	**20,000**	–	**–**	–
	324,135	238,199	**141**	262
Less: Pledged time deposits:				
Pledged for short term bank loans (note 28)	**(20,000)**	–	**–**	–
Cash and cash equivalents	**304,135**	238,199	**141**	262

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$232,314,000 (2010: HK$164,986,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26. Trade Payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**51,677**	78,838
31 to 90 days	**28,914**	21,241
91 to 180 days	**5,296**	456
181 to 360 days	**1,436**	227
Over 360 days	**752**	1,166
	88,075	101,928

The trade payables are non-interest-bearing and are normally settled on 60-day to 90-days terms.

27. Other Payables and Accruals

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**22,937**	30,773	**–**	–
Other payables	**81,239**	64,920	**859**	200
Accruals	**20,363**	9,615	**–**	–
	124,539	105,308	**859**	200

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

28. Interest-Bearing Bank Loans

		Group				Company			
			2011		2010		**2011**		2010
		Maturity	**HK$'000**	Maturity	HK$'000	**Maturity**	**HK$'000**	Maturity	HK$'000
Current									
Short term bank loans – secured	(i)	**2012**	**147,356**	2011	70,590		**–**		–
Current portion of secured long term bank loans	(ii)	**2012**	**1,698**	2011	1,698		**–**		–
			149,054		72,288		**–**		–
Non-current									
Secured bank loan	(ii)	**2013 – 2024**	**12,858**	2012 – 2024	13,733		**–**		–
	(ii)	**2013 – 2022**	**8,347**	2012 – 2022	9,170		**–**		–
	(iii)	**2013 – 2014**	**243,495**		–	**2013 – 2014**	**243,495**		–
			264,700		22,903		**243,495**		–
			413,754		95,191		**243,495**		–
Analysed into:									
Within one year			**149,054**		72,288		**–**		–
In the second year			**1,729**		1,729		**–**		–
In the third to fifth years, inclusive			**248,879**		5,385		**243,495**		–
Beyond five years			**14,092**		15,789		**–**		–
			413,754		95,191		**243,495**		–

28. Interest-Bearing Bank Loans (continued)

(i) At 31 December 2011, the Group's interest bearing bank borrowings are bank advances comprising (a) bank borrowings of HK$80,000,000 which are secured by the pledge of certain of the Group's time deposits amounting to HK$20,000,000; (b) bank borrowings of HK$18,000,000 which are guaranteed by the Company; and (c) bank borrowings of HK$49,356,000 which are secured by a parcel of Group's leasehold land and a building situated in Mainland China with a net carrying value as at the end of the reporting period of approximately HK$38,633,000 and HK$341,000,000, respectively.

(ii) The Group's interest bearing bank borrowings are secured by mortgages over the Group's building located in Hong Kong with a net carrying value as at the end of the reporting period of approximately HK$57,700,000.

(iii) On 20 October 2011, the Company entered into a facility agreement with a syndicate of financial institutions (the "Lenders"), whereby the Lenders agreed, inter alia, to grant the Company a HK$208,000,000 and US$ 24,700,000 dual currency term loan facility (the "Facility").

The Facility was granted for the purpose of financing the general working capital requirement of the Group, including partially financing the construction cost of a manufacturing plant in Nanchang, Jiangxi Province, Mainland China.

Under the Facility, there is a specific performance obligation that Mr. Tse Kam Pang, who is the Chairman of the Board of Directors of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 30% of the beneficial shareholding, carrying at least 30% of the voting rights in the Company free from any security (as defined by the Facility). As at the date of this report, this obligation has been complied with.

At the end of the reporting period, the Group has utilised HK$130,000,000 and US$15,437,500 of the Facility.

At 31 December 2011, the Group's secured short term bank loans bore interest at rates ranging from HIBOR+1.75% to 6.84% per annum. The Group's and the Company's secured long term bank loans bore interest at rates ranging from HIBOR+1.75% to 1.5% below the base lending rate per annum.

Included in the above are bank loans denominated in RMB of HK$49,356,000 (2010: HK$72,288,000) and bank loans denominated in United States dollars of HK$117,086,000 (2010: Nil). The remaining bank loans are denominated in Hong Kong dollars.

29. Deferred Tax Liabilities

The movements in deferred tax liabilities during the year are as follows:

Group

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of a subsidiary HK$'000	Total HK$'000
At 1 January 2010	–	–	–
Acquisition of a subsidiary	–	860	860
Deferred tax credited to the income statement during the year (note 10)	–	(11)	(11)
Gross deferred tax liabilities at 31 December 2010 and 1 January 2011	–	849	849
Deferred tax charged to other comprehensive income	33,546	–	33,546
Deferred tax credited to the income statement during the year (note 10)	–	(18)	(18)
Gross deferred tax liabilities at 31 December 2011	33,546	831	34,377

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future.

30. Share Capital

	2011 HK$'000	2010 HK$'000
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
682,323,418 (2010: 637,877,000) ordinary shares of HK$0.10 each	**68,232**	63,788

During the year, the movements in share capital were as follows:

(a) The subscription rights attaching to 28,974,910 share options were exercised at the subscription prices of HK$0.52 to HK$2.26 per share (note 31), resulting in the issue of 28,974,910 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$26,188,000. An amount of HK$8,919,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) On 7 June 2011, 15,471,508 shares were issued and allotted in respect of the 2010 final scrip dividend at the scrip price of HK$3.267 per share, resulting in an increase in fully paid share capital of HK$1,547,000 and share premium of HK$48,998,000.

30. Share Capital (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010	466,761,000	46,676	204,037	250,713
Acquisition of a subsidiary	68,180,000	6,818	68,180	74,998
Acquisition of non-controlling interests	24,186,000	2,419	49,581	52,000
Share options exercised	3,750,000	375	2,249	2,624
Issue of shares	75,000,000	7,500	219,750	227,250
	637,877,000	63,788	543,797	607,585
Share issue expenses	–	–	(10,065)	(10,065)
At 31 December 2010 and 1 January 2011	637,877,000	63,788	53,732	597,520
Share options exercised (a)	28,974,910	2,897	32,210	35,107
Shares issued in lieu of dividends (b)	15,471,508	1,547	48,998	50,545
At 31 December 2011	682,323,418	68,232	614,940	683,172

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. Share Option Scheme

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

31. Share Option Scheme (continued)

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

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

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

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

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the Scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK$1 by way of consideration for the grant.

31. Share Option Scheme (continued)

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

Name or category of participant	At 1 January 2011	Exercised during the year	Granted during the year	Number share of options at 31 December 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share	Price of the Company's shares at grant date of options** HK$ per share
Directors								
Donald H. Straszheim	1,000,000	–	–	1,000,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
Yue Man Yiu, Matthew	–	–	1,000,000	1,000,000	17/11/2011	17/11/2012 to 16/11/2022	2.18	2.15
Lau Chi Kit	–	–	1,000,000	1,000,000	6/9/2011	6/9/2012 to 5/9/2022	2.53	2.28
Chang Chu Fai, Johnson. Francis	750,000	–	–	750,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
Ma Ming Fai, Gary	4,600,000	–	–	4,600,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
Tse Kam Pang	5,344,910	(5,344,910)	–	–	26/4/2010	26/4/2011 to 25/4/2021	2.20	2.20
Zeng Le Jin	2,600,000	–	–	2,600,000	20/7/2010	20/7/2010 to 19/7/2020	0.52	0.52
Others								
Members of senior management and other employees of the Group	24,900,000	(22,100,000)	–	2,800,000	20/7/2009	20/7/2010 to 19/7/2020	0.52	0.52
	1,000,000	(1,000,000)	–	–	14/4/2010	14/4/2011 to 13/4/2021	1.78	1.78
	500,000	–	–	500,000	14/4/2010	1/10/2011 to 13/4/2021	1.78	1.78
	500,000	–	–	500,000	14/4/2010	1/4/2012 to 13/4/2021	1.78	1.78
	12,000,000	–	–	12,000,000	9/7/2010	9/1/2011 to 8/1/2021	2.12	2.12
	250,000	(250,000)	–	–	20/7/2010	20/7/2011 to 19/7/2021	2.10	2.08
	250,000	–	–	250,000	20/7/2010	20/7/2012 to 19/7/2021	2.10	2.08
	530,000	(280,000)	–	250,000	22/7/2010	22/7/2011 to 21/7/2021	2.26	2.26
	–	–	500,000	500,000	3/3/2011	3/3/2012 to 2/1/2022	3.73	3.73
	–	–	500,000	500,000	3/3/2011	3/3/2012 to 2/1/2022	3.73	3.73
	–	–	3,000,000	3,000,000	31/1/2011	31/1/2012 to 30/1/2022	4.12	4.08
	–	–	8,000,000	8,000,000	10/6/2011	10/6/2012 to 9/6/2022	3.6	3.53
In aggregate	54,224,910	(28,974,910)	14,000,000	39,250,000				

31. Share Option Scheme (continued)

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

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of grant of the share options is the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the trading day immediately prior to the date of grant of the options.

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.56 per share (2010: HK$3.23).

The fair value of the share options granted during the year was HK$16,414,000 (HK$1.17 each) (2010: HK$14,062,000, HK$0.69 each).

The Group recognised a share option expense of HK$12,939,000 (2010: HK$15,161,000) for the year ended 31 December 2011.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant. The following table lists the inputs to the model used:

	2011	2010
Dividend yield (%)	**4.5**	4.4
Volatility (%)	**50.69 – 62.72**	69.00
Risk-free interest rate (%)	**0.19 – 0.58**	0.50 – 0.69
Expected life of options (year)	**2**	2
Weighted average share price (HK$ per share)	**3.56**	2.11

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

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

The 28,974,910 share options exercised during the year resulted in the issue of 28,974,910 ordinary shares of the Company and new share capital of HK$2,897,000 and share premium of HK$32,210,000 (before issue expenses), as further detailed in note 30(a) to the financial statements.

31. Share Option Scheme (continued)

At the end of the reporting period, the Company had 39,250,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 39,250,000 additional ordinary shares of the Company and additional share capital of HK$3,925,000 and share premium of HK$80,330,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 38,950,000 share options outstanding under the Scheme, which represented approximately 5.71% of the Company's shares in issue as at that date.

As the Scheme is due to expire on 25 April 2012, the Company proposes to adopt a new share option scheme to replace the Scheme and to continue to advance the interests of the Company and the Shareholders by enabling the Company to grant share options to attract, retain and reward the eligible persons and to provide the eligible persons an incentive or reward for their contribution to the Group and by enabling such persons' contribution to increase profits by encouraging capital accumulation and share ownership.

Resolutions, among other matters, to adopt the new share option scheme will be proposed at the annual general meeting of the Company to be held on 18 May 2012. A circular containing, inter alia, further details of the new share option scheme has been despatched to the Shareholders.

32. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 to 37 of the financial statements.

32. Reserves (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2010		204,037	45,144	3,036	23,045	275,262
Profit and total comprehensive income for the year		–	–	–	86,388	86,388
Final 2009 dividend declared and paid		–	–	–	(2,056)	(2,056)
Acquisition of a subsidiary	30	68,180	–	–	–	68,180
Acquisition of non-controlling interests	30	49,581	–	–	–	49,581
Equity-settled share option expense	31	–	–	15,161	–	15,161
Share options exercised	30	2,249	–	(674)	–	1,575
Issue of shares	30	219,750	–	–	–	219,750
Share issue expenses	30	(10,065)	–	–	–	(10,065)
Interim 2010 dividend declared	12	–	–	–	(8,962)	(8,962)
Proposed final 2010 dividend	12	–	–	–	(57,409)	(57,409)
At 31 December 2010		533,732	45,144	17,523	41,006	637,405
Profit and total comprehensive income for the year		–	–	–	63,630	63,630
Shares issued in lieu of dividends	30(b)	48,998	–	–	–	48,998
Equity-settled share option expense	31	–	–	12,939	–	12,939
Share options exercised	30(a)	32,210	–	(8,919)	–	23,291
Interim 2011 dividend declared	12	–	–	–	(20,470)	(20,470)
Proposed final 2011 dividend	12	–	–	–	(54,610)	(54,610)
At 31 December 2011		614,940	45,144	21,543	29,556	711,183

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganization before the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus under certain circumstances.

33. Business Combinations

On 1 April 2011, the Group acquired a 100% interest in certain retail shops (the "Retail Shops") in Mainland China. The Retail Shops are engaged in the sale of the Group's products. The purchase consideration for the acquisition was in the form of cash. The fair values of the identifiable assets and liabilities of the Retail Shops as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	14	1,641
Cash and bank balances		907
Trade receivables		1,087
Prepayments and other receivables		5,417
Inventory		6,748
Trade payables		(479)
Accruals and other payables		(4,141)
Total identifiable net assets at fair value		11,180
Goodwill on acquisition	16	58,710
Satisfied by cash		69,890

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of the Retail Shops is as follows:

	HK$'000
Cash considerations*	(69,890)
Cash and bank balances acquired	907
Net outflow of cash and cash equivalents included in cash flows from investing activities	(68,983)

* The amount was prepaid in 2010 (note 21).

Since its acquisition, the Retail Shops contributed HK$32,008,000 to the Group's turnover and HK$6,704,000 to the consolidated profit for the year ended 31 December 2011.

34. Operating Lease Arrangements

As lessee

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**38,780**	25,315
In the second to fifth years, inclusive	**8,328**	21,746
After five years	**2,041**	4,945
	49,149	52,006

At the end of the reporting period, the Company did not have any significant operating lease arrangements.

35. Commitments

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	HK$'000
Authorised, but not contracted for:		
Land and buildings	**234,441**	150,000
Plant and machinery	**61,695**	50,000
	296,136	200,000

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

36. Related Party Transactions

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

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Associates:			
Sales of products	(i)	**9,829**	11,357
Purchases of products	(i)	**10,206**	6,429
Interest income	(ii)	**2,147**	2,117

(i) The sales to and purchases from the associates were made according to the published prices and conditions offered to the major customers of the Group.

(ii) Interest income, derived from the loan to an associate, was at the rate of 7.5% per annum.

(b) Outstanding balances with an associate as at the end of the reporting period are included in note 19 and note 24 to the financial statements.

(c) Compensation of key management personnel of the Group

	Group 2011 HK$'000	Group 2010 HK$'000
Short term employee benefits	**14,015**	11,941
Equity-settled share option benefits	**1,916**	3,573
Pension scheme contributions	**–**	9
Total compensation paid to key management personnel	**15,931**	15,523

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

37. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

2011	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivables	76,804	–	76,804
Available-for-sale investments	–	6,022	6,022
Financial assets included in prepayments, deposits and other receivables (note 24)	152,463	–	152,463
Pledged deposits	20,000	–	20,000
Cash and cash equivalents	304,135	–	304,135
	553,402	6,022	559,424

Group

Financial assets

2010	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivables	54,569	–	54,569
Available-for-sale investments	–	7,456	7,456
Financial assets included in prepayments, deposits and other receivables (note 24)	140,079	–	140,079
Cash and cash equivalents	238,199	–	238,199
	432,847	7,456	440,303

37. Financial Instruments by Category (continued)

Group

Financial liabilities

	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Trade payables	**88,075**	101,928
Financial liabilities included in other payables and accruals (note 27)	**74,331**	53,536
Interest-bearing bank loans	**413,754**	95,191
	576,160	250,655

Company

Financial assets

	2011 Loan and receivables HK$'000	2010 Loan and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables (note 24)	**4,150**	10,066
Cash and cash equivalents	**141**	262
	4,291	10,328

37. Financial Instruments by Category (continued)

Company

Financial liabilities

	2011 Financial liabilities at amortised cost HK$'000	2010 Financial liabilities at amortised cost HK$'000
Other payables	**859**	200
Interest-bearing bank loans	**243,495**	–
	244,354	200

38. Fair Value and Fair Value Hierarchy

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, and current portion of interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are based on quoted prices (unadjusted) in active markets for identical assets.

The carrying amounts of the Group's and Company's financial assets and financial liabilities approximate to their fair value.

39. Financial Risk Management Objectives and Policies

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

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

(i) Interest rate risk

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

The interest-bearing bank loans with floating interest rates are denominated in Hong Kong dollars and United States dollars. If there would be a general increase/decrease in the interest rate of bank borrowings with floating interest rates by 25 basis points, with all other variables held constant, the profit before tax and owners' equity for the Group would have decreased/increase by approximately HK$662,000 and HK$238,000 for the years ended 31 December 2011 and 2010 respectively.

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 1.42% (2010: 2.67%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2010: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

(iii) Credit risk

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

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

39. Financial Risk Management Objectives and Policies (continued)

(iii) Credit risk (continued)

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

(iv) Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2011		
	Less than one year HK$'000	**Over one year HK$'000**	**Total HK$'000**
Interest-bearing bank loans	**149,054**	**264,700**	**413,754**
Trade payables	**88,075**	**–**	**88,075**
Other payables and accruals	**74,331**	**–**	**74,331**
	311,460	**264,700**	**576,160**

Group

	2010		
	Less than one year HK$'000	Over one year HK$'000	Total HK$'000
Interest-bearing bank loans	72,288	22,903	95,191
Trade payables	101,928	–	101,928
Other payables and accruals	53,536	–	53,536
	227,752	22,903	250,655

39. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk (continued)

Company

	2011		
	Less than one year HK$'000	**Over one year HK$'000**	**Total HK$'000**
Interest-bearing bank loans	**–**	**243,495**	**243,495**
Other payables	**859**	**–**	**859**
	859	**243,495**	**244,354**

Company

	2010		
	Less than one year HK$'000	Over one year HK$'000	Total HK$'000
Other payables	200	–	200

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

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

39. Financial Risk Management Objectives and Policies (continued)

(v) Capital management (continued)

The gearing ratios as at the end of the reporting periods were as follows:

Group

	2011 **HK$'000**	2010 HK$'000
Interest-bearing bank loans	**413,754**	95,191
Trade payables	**88,075**	101,928
Other payables and accruals	**124,539**	105,308
Less: Cash and cash equivalents	**(304,135)**	(238,199)
Net debt	**322,233**	64,228
Equity attributable to owners of the Company	**1,451,322**	1,078,168
Capital and net debt	**1,773,555**	1,142,396
Gearing ratio	**18%**	6%

40. Events After the Reporting Period

The Board proposes to increase the share capital of the Company by capitalising the retained profits of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders on the basis of 1 bonus share for every 8 ordinary shares held by the shareholders. Based on a total of 682,323,418 shares in issue as at 31 December 2011, 85,290,428 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$68,232,000 to HK$76,761,000 upon completion of the bonus issue. The amount of HK$8,529,000 will be capitalised from the Company's retained profits.

The bonus issue and the increase in the Company's share capital will be subject to the shareholders' approval at the forthcoming annual general meeting.

41. Comparative Amounts

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation for better presentation of the financial statements.

42. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2012.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

Results

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000 (restated)	HK$'000 (restated)
REVENUE	**1,547,318**	1,210,005	892,234	1,013,844	827,381
Cost of sales	**(1,060,671)**	(837,213)	(605,626)	(716,259)	(606,098)
Gross profit	**486,647**	372,792	286,608	297,585	221,283
Other income and gains	**10,404**	17,488	11,181	4,031	1,482
Share of profits of associates	**5,216**	6,330	3,352	376	1,520
Goodwill impairment	**–**	–	–	(111,688)	–
Selling and distribution costs	**(155,739)**	(127,459)	(105,936)	(195,117)	(97,850)
Administrative expenses	**(83,270)**	(61,541)	(57,215)	(68,345)	(63,244)
Other expenses	**–**	–	(2,649)	(10,884)	(6,927)
Finance costs	**(7,405)**	(3,483)	(1,164)	(3,196)	(1,861)
PROFIT/(LOSS) BEFORE TAX	**255,853**	204,127	134,177	(87,238)	54,403
Income tax expense	**(21,537)**	(13,422)	(3,711)	(2,302)	(2,091)
PROFIT/(LOSS) FOR THE YEAR	**234,316**	190,705	130,466	(89,540)	52,312
Attributable to:					
Owners of the Company	**228,241**	181,253	130,466	(89,626)	50,406
Non-controlling interests	**6,075**	9,452	–	86	1,906
	234,316	190,705	130,466	(89,540)	52,312

Assets, Liabilities and Non-controlling Interests

	As at 31 December				
	2011	2010	2009	2008	2007
TOTAL ASSETS	**2,296,366**	1,481,821	872,095	775,309	848,260
TOTAL LIABILITIES	**(757,964)**	(381,392)	(249,741)	(321,048)	(309,989)
NON-CONTROLLING INTERESTS	**(87,080)**	(22,261)	(4,528)	(4,528)	(4,442)
	1,451,322	1,078,168	617,826	449,733	533,829