皇朝傢俬

ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

Annual Report 2012

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang *(Chairman)*
(Chief Executive Officer appointed on 1 August 2012)
Mr. Chang Chu Fai J. Francis*
(Vice Chairman appointed on 1 August 2012)
Mr. Ma Gary Ming Fai
(Chief Executive Officer resigned on 1 August 2012)
Mr. Zeng Lejin *(Chief Operating Officer)*
Mr. Tse Wun Cheung *(appointed on 15 June 2012)*
Mr. Lam Toi

Independent Non-Executive Directors

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

AUDIT COMMITTEE

Mr. Yue Man Yiu Matthew *(Chairman)*
Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Chang Chu Fai J. Francis* *(resigned on 3 August 2012)*

REMUNERATION COMMITTEE

Mr. Lau Chi Kit *(Chairman appointed on 3 August 2012)*
Mr. Chang Chu Fai J. Francis*
(Chairman resigned on 3 August 2012)
Dr. Donald H. Straszheim
Mr. Yue Man Yiu Matthew

NOMINATION COMMITTEE

Mr. Lau Chi Kit *(Chairman appointed on 3 August 2012)*
Dr. Donald H. Straszheim
Mr. Yue Man Yiu Matthew
Mr. Chang Chu Fai J. Francis* *(resigned on 3 August 2012)*

COMPANY SECRETARY

Ms. Chan Wei Fun, CPA

AUDITORS

Ernst & Young

SOLICITORS

DLA Piper Hong Kong

PRINCIPAL BANKER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

1198

INVESTOR RELATIONS

Tel: (852) 2636-6648
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* redesignated as an Executive Director of the Company on 1 August 2012

CHAIRMAN'S STATEMENT

Dear Shareholders,

I herein 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 2012.

The year of 2012 was a very difficult year for the Group. After a couple of years of restrictive Chinese government policies in the property sector, the furniture industry during the year felt the full impact of such policies. In addition, the Chinese consumer sentiment worsened in the beginning of the year. The furniture industry is of no exception and hence, our business was adversely affected by these two factors during 2012.

As a consequence, the Group for the year ended 31 December 2012 recorded a sales decline of 31.3% to HK$1,063.7 million. Profit attributable to equity shareholders in 2012 declined to HK$21.6 million, a decrease of 90.5%.

The Board of Directors recommended the payment of a final dividend of HK0.55 cents per share for the year ended 31 December 2012 which is in line with the Group's past dividend policy.

MEASURES TAKEN IN A DIFFICULT ENVIRONMENT

In a difficult year like 2012, the Group seized the opportunity to consolidate its stores in the network. After a series of critical review of our stores in different regions, a number of the non performing stores were closed while new stores are opened in strategic locations to support development of our new product series. For the remaining stores, we have provided relatively strong incentive policies for them to combat the declining sales. These incentives include subsidies in promotional advertising programs. The Group strongly believes that we need to take a leadership position in the industry especially vis a vis our franchisees in a difficult operating environment.

ADDING VALUE TO THE BRAND

The Group continues to invest in the brand of Royal Furniture. After sponsoring the Universiade Game in Shenzhen during 2011, the Group has recently appointed Miss Lin Chiling (林志玲), a celebrity model and movie star of the greater China region as the new spokesperson for our brand so as to have a fresh image.

One of our key strategies is to enhance our brand image and enable our marketing and retail management to move towards higher standards and efficiency.

In 2012, the Group signed an exclusive distributorship agreement with Duresta, a top luxury sofa brand in the UK in addition to the exclusive distributorship signed with the Italian premium brand Treci in 2011. In early 2013, we signed an exclusive distributorship agreement with another premium Italian brand Stilema. Our self operating flagship store in Foshan bordering at the Shunde Lecong district carrying all of these three European premium brands launched a soft opening in March 2013 under our new retail store brand of 'Franca Camere" specifically created to develop our import brand business.

Our co-operations with these premium furniture brands will reinforce our overall brand position amongst the Chinese consumers.

EXPANSION PLAN

Besides the Tianjin plant which is scheduled to commence trial production by the third quarter of 2013 and the self operating flagship store in Foshan, the Group is planning to establish a few more self operating flagship "Franca Camere" stores in major cities (subject to availability of suitable locations) this year in addition to new franchisee or self-operating stores at strategic locations to support the Group's new product series.

CHAIRMAN'S STATEMENT

OUTLOOK

We have successfully achieved our strategic goals in two major phases in the past 15 years since our establishment. In the first few years of business start up, we succeeded in establishing a reputation for reliable and appreciated quality of our furniture. Quality and value furniture has been one of our core values ever since. Then, brand building and retail network expansion in Mainland China were our key development strategies in the following ten years. I would like to express my sincere thanks to our management team in the successful establishment of a top brand of Royal Furniture and an extensive retail network reaching most of our target consumers in Mainland China. Going forward, I recognize that re-engineering our retail management is absolutely the immediate challenge for us in the coming five to ten years and I am committed to leading our management in achieving results in the initiatives of retail network re-engineering. The objectives of the retail management re-engineering program include upgrading store image, enhancing the efficiency of retail stores and improving the store & sales management and performance. With the solid foundations of our reputation in quality, the successful brand building of Royal Furniture and the existing retail network in Mainland China, future improvement in retail performance will definitely contribute to better results in the long run.

In addition to the favourable government policy of urbanization in Mainland China, the strong demand and purchasing power for quality and value furniture from the rapidly growing Middle and Upper Middle Classes in Mainland China is believed to be another key driver for our future business development. Under appropriate macro environment and our implementation of retail management re-engineering programs, another successful breakthrough in our business development roadmap can be expected in the coming years.

APPRECIATION

On behalf of the Board, I would like to extend my deepest thanks to our business partners, franchisees and in particular the management team and the employees of the Group for the dedication and hard work in 2012 where the Group encountered an extremely difficult environment. The Group's result would be impossible to achieve 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, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board has resolved to recommend a final dividend for the year ended 31 December 2012 in cash form equivalent to HK0.55 cents per share to the shareholders whose names appear on the register of members of the Company on 29 May 2013. No interim dividend was declared in 2012 (2011: HK3.00 cents). The dividend for the year ended 31 December 2012 is HK0.55 cents per share (2011: HK11.00 cents), representing a decrease of 95.0% from 2011.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 May 2013 to 20 May 2013, 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 to be held on 20 May 2013, 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 15 May 2013.

In addition, the Register of Members of the Company will be closed from 24 May 2013 to 29 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the final dividend, 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 2013.

FINANCIAL REVIEW

After three consecutive years of profit growth from 2009 to 2011, 2012 was a very difficult year for the Group amid poor consumer sentiment across China and restrictive measures imposed by the Central Government on the China property markets.

For the year under review, the Group's revenue decreased by 31.3% to HK$1,063.7 million (2011: HK$1,547.3 million). Both of the Group's wholesale and retail segments recorded a decline in sales. Our gross profit dropped 36.2% to HK$310.4 million (2011: HK$486.6 million) with a lower gross profit margin which decreased 2.3% to 29.2% from 31.5% in 2011. Such a decline in the gross profit margin is mainly attributed to the sales incentives and discounts that the Group provided to its wholesale and retail customers in order to boost sales while the major factor of the cost of sales, raw material was relatively stable.

During the year under review, total selling and distribution expenses increased by HK$25.1 million to HK$180.9 million. Such an increase is mainly caused by higher spending for promotion to boost sales due to weak market conditions. The administrative expenses of the Group has increased by HK$13.5 million to HK$96.8 million. The increase is mainly attributed to consolidating Bokaimai's administrative expenses after acquisition. Excluding the Bokaimai factor and appreciation of Renminbi, the Group's administrative expenses registered a modest increase. The finance cost increased by HK$11.4 million to HK$18.8 million corresponding with the higher average outstanding bank loan balance during the year. Overall, the net profit of the Group has decreased 90.5% to HK$21.6 million (2011: HK$228.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Sales Management

During the year, the Group generated 81.2% and 18.8% of our sales from our franchisee stores and self operating stores respectively. Although our sales from both segments have declined significantly, our self operating stores declined relatively less due to a stronger than normal discount promotional policy on our own stores to boost sales. The Group also provided incentives for its franchisee stores to combat their declining sales. These incentives included sales volume discounts and sales promotional supports via intensified advertising programs. The Group also took a critical review of its sales network and decided to close a number of stores which were considered to be non-performing. Such closure of stores covered both self operating and franchisee stores mostly in the upper tier cities.

Brand Management

Despite the poor market environment, the Group continues to invest in upgrading its brand during the year. As we have positioned our products at the middle to high end price range segments, brand image is important to the Group. Our branding exercises in the past decade, amongst others, included the sponsorships of Beijing Olympics in 2008 and Shenzhen Universiade Game in 2011 and the appointment of renowned movie stars as our spokespersons. In order to refresh our brand image, the Group has appointed a very popular celebrity model in the Greater China region, Miss Lin Chiling (林志玲) as the new spokesperson for our brand.

Product Development and Management

Self-Developed Product Series: During the year, the Group launched one new product series called "森林物語" Senlin Wuyu which are made of hardwood with a rustic finishing touch. In addition we have redesigned and upgraded the "Light Walnut", our best selling product series within the Group for many years.

Acquisition of Bokaimai: In 2012, the Group acquired a Shenzhen furniture group supplying high-end European classic style solid wood furniture under its own brands. The Bokaimai division currently produces two product series: Jocci and L'amour Rose. The former is a formal looking classical style furniture in darker wood colors while the latter is a modern looking classical style furniture in light beige color. The acquisition of Bokaimai allows the Group to scale up its design and production capabilities in high-end Western style hardwood furniture of sizable scale.

Premium Import Brands: During the year, the Group has signed up as the exclusive distributor of Duresta of the U.K., who designs and produces hand-made sofas that are often sold to palaces of monarchs, governments and celebrities. This is in addition to the premium brand of Treci signed up in 2011. With the fast growing number of very wealthy households in China, the Group is of the view that there is a sizable demand for luxury furniture imported from Europe. Thus, the Group has positioned itself to be the trust worthy distributor of such premium European brands meeting the growing demands of a distinct group of wealthy customers in China.

Human Resource Management

During the year, the Group has streamlined the head counts of its various departments. In addition from August onward, all of the Group's executive directors have elected to reduce their monthly salary by 50% until profitability has improved. Nevertheless, to complement our strategy in distributing the premium import brands, the Group has recruited a team of staff from China, Hong Kong and Singapore to cater for penetration into this luxury market segment.

MANAGEMENT DISCUSSION AND ANALYSIS

New Production Facilities

The Group has new production facilities in Tianjin and Nanchang of the Jiangxi Province under planning. 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 is scheduled to commence trial production by the third quarter of 2013. This Tianjin plant is expected to focus more on the production of bulky products such as sofas. The Nanchang plant is currently at the land leveling stage and major capital expenditure will be deferred until the market conditions improve.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a cash and cash equivalents amounted to HK$408.5 million as at 31 December 2012 (2011: HK$304.1 million). Although the Group's expansion plan was partially financed by cash flow from operating activities, it has raised HK$190.0 million through an open offer of new shares.

As at 31 December 2012, except for the interest bearing loans amounted to HK$582.9 million (2011: HK$413.7 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 21.2% (2011: 18.2%). Approximately, 48.4% 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 of our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2012, the liquidity of the Group was slightly reduced as its current ratio (current assets to current liabilities) has slightly decreased to 1.43 (2011: 1.84) and the net current asset has decreased to HK$310.8 million (2011: HK$384.1 million).

PROSPECTS

2013 is a year full of uncertainties. Firstly, the widely expected new stimulus package to be introduced by the Chinese government has not materialized. Secondly, while there are signs of recovery in the Chinese property market since mid 2012, the Central Government under the new leadership has announced a new round of restrictive policies on the property sector, which has created uncertainty on whether the recovery of the Chinese property market can be sustained.

On the other hand, it is encouraging to note that the new leadership has committed to continuous urbanization of China which means increasing demand for housing units, and hence furniture. This confirms the Group has adopted the right strategy to expand into the townships or third/fourth-tier cities a few years ago. The Group is well placed to capture growth opportunities arising from China's urbanization with its panel-wood product series.

In the major cities, there is a fast growing affluent middle class which has the spending power and aspiration to improve their living standards. We believe the premium furniture segment is growing rapidly, especially, the high end imported furniture. In this regard, we have positioned ourselves to capture growth opportunities in this high end market segment through exclusive distributorships of import brands and establishing a new team to cater for development of this market segment.

We will continue to improve the point-of-sales efficiency through upgrading store image, training and streamlining our retail network. We anticipate 2013 would remain a difficult year. However, barring unforeseen circumstances, we are cautiously optimistic on the outlook of 2013 when compared with 2012.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

This corporate governance report (the "**Corporate Governance Report**") is to outline the major principles of the Company's corporate governance. Shareholders of the Company are encouraged to make their views known to the Group if they have issues with the Company's corporate governance and to directly raise any matters of concern to the chairman of the Board (the "**Chairman**" or the "**Chairman of the Board**").

The Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") was amended and revised as the Corporate Governance Code (the "**Revised CG Code**") which became effective on 1 April 2012. For the financial year of the Company ended 31 December 2012 (the "**Year**") under review, save as disclosed in this Corporate Governance Report, the Company has complied with the applicable code provisions (the "**Code Provisions**") of the CG Code and the Revised CG Code as and when they were/are in force.

B. DIRECTORS' SECURITIES TRANSACTIONS

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding the Directors' securities transactions during the Year.

C. THE BOARD

Roles and 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.

CORPORATE GOVERNANCE REPORT

Board Composition

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

Executive directors:
Mr. Tse Kam Pang *(Chairman, Chief Executive Officer appointed on 1 August 2012)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer resigned on 1 August 2012)*
Mr. Chang Chu Fai J. Francis *(Vice Chairman appointed on 1 August 2012)*
Mr. Zeng Lejin *(Chief Operating Officer)*
Mr. Tse Wun Cheung *(appointed on 15 June 2012)*
Mr. Lam Toi

Independent Non-executive Directors:
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis *(redesignated as an Executive Director on 1 August 2012)*
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

Mr. Chang Chu Fai J. Francis has been appointed as the Vice Chairman and redesignated as an Executive Director of the Company with effect from 1 August 2012. He had been an Independent Non-executive Director of the Company from July 2005 to July 2012.

As at 31 December 2012, the Board consisted of a total of eight members, including five executive directors (the "**Executive Director**") and three independent non-executive directors (the "**Independent Non-Executive Directors**"). The name and biographical details of each Director and other senior management are set out on pages 21 to 22 of this annual report.

Chairman, Chief Executive Officer, Vice Chairman and Chief Operating Officer

The Code Provision A.2.1 of the Revised CG Code stipulates that the roles of the Chairman of the Board and the Chief Executive Officer should be separate and should not be performed by the same individual, and that the division of responsibilities between the Chairman and the Chief Executive Officer should be clearly stated.

The Chairman of the Board is responsible for leading the Board, and facilitating the business of the Board and the effectiveness of individual Director, both during and outside the Board meetings. The Chairman plays a key role in the development of the Group's strategy and in ensuring management succession. The Chairman is also required to ensure that the principles of good corporate governance and processes of the Board meetings are maintained.

The Chief Executive Officer is responsible to lead executive management of the Group. The Board sets limits to the authorities exercisable by the Chief Executive Officer and the Chief Executive Officer remains accountable to the Board within the limits of delegated authorities. The Chief Executive Officer commits to take overall responsibilities for the supervision and the conducts of the Company's business and its ordinary operation, in accordance with the policies, strategies and objectives established by the Group. The Board is responsible to monitor the performance of the Chief Executive Officer and to ensure whether the Board's objectives have been attained.

Mr. Tse Kam Pang, who acts as the chairman and chief executive officer of the Company, is responsible for undertaking the main decision-making role in the management of the Company's overall operations and overseeing the strategic development of the Group. The Board will meet regularly to consider and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that the sufficient measures have been taken and it will not impair the balance of power and authority between the Board and the management.

CORPORATE GOVERNANCE REPORT

In addition, the Vice Chairman of the Company, Mr. Chang Chu Fai J. Francis, and Executive Director is responsible for assisting the Chairman in formulating our growth strategy and effective running of the Board. The Chief Operating Officer of the Company, Mr. Zeng Lejin, an Executive Director, is responsible for the day-to-day management, administration and operation of the Company.

Board meeting and procedure

The Company convenes at least four regular Board meetings a year and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. For all other board meetings, reasonable notice should be given. During the Year, the Board convened a total of four regular Board meetings and the individual attendance record of each Director at such Board meetings is tabulated as follows:

Name	Number of Board meetings held during the Director's term of office in 2012	Number of meetings attended
Mr. Tse Kam Pang *(Chief Executive Officer appointed on 1 August 2012 and Chairman)*	4	4
Mr Chang Chu Fai J. Francis *(Vice Chairman appointed on 1 August 2012, redesignated as an Executive Director on 1 August 2012)*	4	4
Mr. Ma Gary Ming Fai *(Chief Executive Officer) (resigned on 1 August 2012)*	2	1
Mr. Zeng Lejin *(Chief Operating Officer)*	4	4
Mr. Lam Toi	4	4
Mr. Tse Wun Cheung *(appointed on 15 June 2012)*	2	2
Dr. Donald H. Straszheim	4	4
Mr. Lau Chi Kit	4	4
Mr. Yue Man Yiu Matthew	4	4

All the Directors have access to relevant and timely information. They also have access to the advice and services of the company secretary of the Company, who is responsible for providing the Directors with Board papers and related materials. Where queries are raised by the Directors, prompt and full responses will be given if possible.

Should a potential conflict of interest involving a substantial shareholder of the Company or a Director arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by a written resolution. Independent Non-Executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Independent Non-Executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Dr. Donald H. Straszheim, the independent non-executive directors of the Company has been reappointed for a term of three years on 18 May 2011. Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew, the independent non-executive Directors of the Company, have been re-appointed with no fixed term of service with the Company on 18 May 2012. 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.

Skills, knowledge, experience and attributes of Directors

All Directors of the Board had served in office during the Year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to standards of corporate governance. The Executive Director brings his perspectives to the Board through his understanding of the Group's business. The Independent Non-Executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business.

Division of responsibilities between the Board and management

While the Board is responsible for directing and approving the Group's overall strategies, the Group also has formed management teams in its business areas, comprising both the Executive Director and senior officers of the Group, with authority and responsibility for developing and exercising both operational and non-operational duties. The management team members of the Group have a wide range of skills, knowledge and experience necessary to govern the Group's operations. All management team members are required to report directly to the Chairman on a regular basis to report business performance and operational and functional issues of the Group. This will allow the Group's management to allocate resources more efficiently for its decision-making and facilitate its daily operations.

The Board and the Group's management fully appreciate their respective roles and are committed to corporate governance. The Board is responsible for overseeing the processes by which the management identifies business opportunities and risks. The Board's role is not to manage the day-to-day business operations of the Group and the responsibility of which remains vested in the management.

The Board has set up formal procedures for the Board's decisions. Matters which the Board considers suitable for delegation to its committees are contained in the specific terms of reference of its committees. The terms of reference clearly define the powers and responsibilities of the Board committees. In addition, the Board will receive reports and/or recommendations from time to time from the Board committees on any matter significant to the Group.

Induction and training

Each newly appointed Director, executive or non-executive, is required to undertake an induction program to ensure that he has a proper understanding of his duties and responsibilities. The induction program includes an overview of the Group's business operation and governance policies, the Board meetings' procedures, matters reserved to the Board, an introduction of the Board committees, the Directors' responsibilities and duties, relevant regulatory requirements, and briefings with senior officers of the Group and site visits (if necessary).

Pursuant to the Code Provision A.6.5 of the Revised CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, all Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

CORPORATE GOVERNANCE REPORT

The company secretary of the Company maintains records of training attended by the Directors. The training attended by each Director during the Year is tabulated as follows:–

Training Records

Name	Type of trainings (Note 1)	Training matters (Note 2)
Mr. Tse Kam Pang *(Chief Executive Officer appointed on 1 August 2012 and Chairman)*	a, b	i, ii, iii, iv
Mr Chang Chu Fai J. Francis *(Vice Chairman appointed on 1 August 2012, redesignated as an Executive Director on 1 August 2012)*	a, b	i, ii, iii, iv
Mr. Ma Gary Ming Fai *(Chief Executive Officer) (resigned on 1 August 2012)*	a, b	i, ii, iii, iv
Mr. Zeng Lejin *(Chief Operating Officer)*	a, b	i, ii, iii, iv
Mr. Lam Toi	a, b	i, ii, iii, iv
Mr. Tse Wun Cheung *(appointed on 15 June 2012)*	a, b	i, ii, iii, iv
Dr. Donald H. Straszheim	a, b	i, ii, iii, iv
Mr. Lau Chi Kit	a, b	i, ii, iii, iv
Mr. Yue Man Yiu Matthew	a, b	i, ii, iii, iv

Note 1:

a – attending seminar or training session
b – self-development and updates relating to general economy, business development, director's duties and responsibilities, etc.

Note 2:

i – corporate governance
ii – regulatory compliance
iii – finance
iv – management and operation

Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout the Year, no claim had been made against the Directors and the officers of the Company.

Independent advice

The Board and its committees may seek advice from independent professional advisors whenever it considers appropriate. Each Director, with the consent of the Chairman of the Board and/or the chairman of the audit committee, may seek independent professional advice on matters connected with the Company to perform his responsibilities, at the Group's expense. No Director had exercised his right for independent professional advice during the Year.

CORPORATE GOVERNANCE REPORT

Independence of Non-Executive Directors

Three Independent Non-Executive Directors, namely Dr. Donald H. Straszheim, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew were considered to be independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

Also, the three Independent Non-Executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Dr. Straszheim has been serving the Company as an Independent Non-executive Director since September 2004. In the process of assessing his independence, each of the factors referred to in Listing Rule 3.13(1) to (8) has been confirmed. In line with this, the Company recognizes the continued independence of Dr. Straszheim under Rule 3.13 of the Listing Rules. Serving as an Independent Non-executive Director, Dr. Straszheim has always brought high standards of corporate governance to the Company and contributed objectively in advising, as well as monitoring and mentoring the management of the Company. Being familiar with the corporate values of the Company, the presence of Dr. Straszheim has enhanced these values by his sustained development of a strong advisory relationship with the Company. The Board therefore believes that Dr. Straszheim should be re-elected to enable the Company to continue to benefit from his experience and advice to the Company.

Company secretary

All Directors have access to the advice and services of the Company Secretary (the "Company Secretary") to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

During the Year, the Company Secretary had confirmed that she had taken no less than 15 hours of relevant professional training.

Relationships and associations among the Directors

Mr. Tse Wun Cheung is the nephew of Mr. Tse Kam Pang, who is the Chairman of the Company. Save as disclosed, there was no other relationship between members of the Board (including financial, business, family or other material/relevant relationship(s)).

D. 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

As at 31 December 2012, the Audit Committee consists of three independent non-executive Directors namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim 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 twice a year for final result reviews.

The Audit Committee is provided with sufficient resources to perform its duties. Latest terms of reference of the Audit Committee can be viewed on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

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; and

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 2012. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	**Number of Audit Committee meetings held in 2012**	**Number of meetings attended**
Mr. Yue Man Yiu Matthew *(Chairman)*	2	2
Mr. Chang Chu Fai J. Francis *(resigned on 3 August 2012)*	1	1
Dr. Donald H. Straszheim	2	2
Mr. Lau Chi Kit	2	2

During the Year, the Audit Committee had performed the following work (in summary):

(a) The Audit Committee assisted the Board in assuring the integrity of the Company's financial statements, including reviewed the financial results of the Group for the year ended 31 December 2011 and the interim results for the six months ended 30 June 2012. It evaluated and made recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgment, compliance with Hong Kong Financial Reporting Standards and other legal requirements, and the results of external audit. It reviewed interim and annual financial statements of the Company, reported its work and findings to the Board and made recommendations on specific actions or decision for the Board to consider after each Audit Committee's meeting. Minutes of the Audit Committee's meetings were kept by the Company Secretary and made available to all Directors.

(b) The Audit Committee also managed the relationship with the external auditors on behalf of the Board. It made recommendation to the Board on the appointment of the external auditors and the relevant terms of engagement, including remuneration. The Audit Committee was required to review the integrity, independence and objectivity of the external auditors. Also, it examined the external auditors' independence including its engagement of non-audit services. Based on the review of the Audit Committee, the Board was satisfied that the external auditors were independent. During 2012, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

(c) The Audit Committee was required to ensure that the system of internal control of the Group was in place for identifying and managing risks. The Audit Committee had reviewed the effectiveness of internal controls for the Year. Such review covered financial, operational and compliance controls and risk assessment of the Group. The Board was satisfied that the effectiveness of the internal controls of the Group had been properly reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code. The Remuneration Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Dr. Donald H. Straszheim 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 were two meetings of the Remuneration Committee held in 2012. Details of the members attendance record in the year are as follows:

Directors Attendance

Name	Number of Remuneration Committee meetings held in 2012	Number of meetings attended
Mr. Lau Chi Kit *(Chairman appointed on 3 August 2012)*	2	2
Mr. Chang Chu Fai J. Francis *(resigned on 3 August 2012)*	1	1
Dr. Donald H. Straszheim	2	2
Mr. Yue Man Yiu Matthew	2	2

Details of the remuneration of each Director for 2012 is set out in the Note 8 to this Annual Report.

Roles and functions

According to the written terms of reference of the Remuneration Committee, the Remuneration Committee has adopted the model to make recommendations to the Board on the remuneration packages of individual Executive Director(s) and senior management including benefits in kind, pension rights and compensation payment comprising any compensation payable for loss or termination of their office or appointment. It also makes recommendations to the Board on the remuneration of Non-Executive Directors. Its principal role is to assist the Board to oversee the policy and structure of the remuneration of the Executive Director(s) of the Company and senior management of the Group.

The Remuneration Committee is provided with sufficient resources to perform its duties. The current duties and responsibilities of the Remuneration Committee are more specifically set out in its latest terms of reference, details of which can be viewed on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The following is a summary of work performed by the Remuneration Committee during the Year:

(a) formulating and recommending the policy and structure of the remuneration of the Directors and senior management of the Group to the Board;

(b) assessing individual performance of the Directors and senior management of the Group;

(c) reviewing specific remuneration packages of the Directors and senior management of the Group with reference to the Board's corporate goals and objectives as well as individual performances; and

(d) reviewing and making recommendations to the Board on compensation-related issues.

Principles of remuneration policy

The principles of the Group's remuneration policy:

1. were applied to all Directors and senior management of the Group for the Year and, so far as practicable, shall be applied to them for subsequent years;

2. were sufficiently flexible taking into account future changes in the Company's business environment and remuneration practice;

3. allowed remuneration arrangement to be designed to support the business strategy of the Group and to align with the interests of the Group's shareholders; and

4. aimed at setting appropriate reward levels to reflect the competitiveness in the market in which comparable companies and the Group had been operating during the Year so as to retain individuals with outstanding performance.

Remuneration structure

Under the above remuneration policy, the remuneration package of each Executive Director and senior management of the Group during the Year was structured to include:

(a) an appropriate rate of base compensation for the job of each Executive Director and senior management of the Group;

(b) competitive benefit programs; and

(c) sets of performance measures and targets for performance-related annual and long-term incentive plans based on the appropriate independent advice and/or an assessment of the interests of shareholders of the Company and taking into account an appropriate balance of risk and reward for the Directors and other participants.

The work and findings together with recommendations of the Remuneration Committee were presented to the Board after the Remuneration Committee's meetings. Minutes of the Remuneration Committee's meeting were made available to all the Directors for inspection. No Director or any of his associates was involved in deciding his own remuneration.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee of the Board was established on 29 March 2012 and comprises three Independent Non-Executive Directors. The Nomination Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Dr. Donald H. Straszheim and Mr. Yue Man Yiu Matthew. The Nomination Committee meets formally at least once a year.

Two Nomination Committee meetings were held during the Year. The following is a summary of the work performed by the Nomination Committee during the Year:

(a) reviewing and evaluating the composition of the Board with reference to certain criteria. These criteria included qualifications required under the Listing Rules or any other relevant laws regarding characteristics and skills of the Directors, professional ethics and integrity, appropriate professional knowledge and industry experience, as well as ability to devote sufficient time to the work of the Board and its committees and to participate in all Board meetings and shareholders' meetings;

(b) reviewing and recommending the re-appointment of the retiring Directors for re-election; and

(c) assessing independence of the Independent Non-Executive Directors.

The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Directors Attendance

Name	Number of Remuneration Committee meetings held in 2012	Number of meetings attended
Mr. Lau Chi Kit *(Chairman appointed on 29 March 2012)*	2	2
Mr. Chang Chu Fai J. Francis *(appointed on 29 March 2012 and resigned on 3 August 2012)*	1	1
Dr. Donald H. Straszheim *(appointed on 29 March 2012)*	2	2
Mr. Yue Man Yiu Matthew *(appointed on 29 March 2012)*	2	2

According to the written terms of reference of the Nomination Committee, the major responsibilities of the Nomination Committee include:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of the Independent Non-Executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

Details of the terms of reference of the Nomination Committee can be viewed on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

E. 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 2012, 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. 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 29 and 30 of this Annual Report.

External Auditors' Remuneration

Prior to the commencement of the audit of the Group's 2012 financial statements, the Audit Committee received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. During the year ended 31 December 2012, the remuneration paid or payable to external auditor for audit services, audit related services and non-audit services amounted to HK$1,980,000 (2011: HK$1,980,000) and HK$300,000 (2011: Nil), respectively.

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 2012 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

CORPORATE GOVERNANCE REPORT

F. 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.

The Group endeavors to disclose relevant information on its activities to its shareholders in an open and timely manner, subject to applicable legal requirements. Communication between the Company and its shareholders is achieved through:

(a) The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;

(b) Forum and notices of AGMs and other general meetings and accompanying explanatory materials;

(c) Press releases on major development of the Group;

(d) Disclosures to the Stock Exchange and relevant regulatory bodies;

(e) Response to inquiries from shareholders or media; and

(f) The website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

The communication channels between the Company and its shareholders above will be reviewed by the Board on a regular basis to ensure their effectiveness in maintaining an on-going dialogue with shareholders.

Constructive use of AGMs

The Board and the management are committed to the constructive use of the AGM as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business.

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2012 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the Audit Committee, the Nomination Committee and the Remuneration Committee on the date of the meeting.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirements under Paragraph O of the Revised CG Code which is effective from 1 April 2012.

CORPORATE GOVERNANCE REPORT

(a) Convening of extraordinary general meeting on requisition by shareholders

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionst(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(b) Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the articles of association of the Company. However, Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out above.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website.

(c) Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the enquiries.

G. INVESTOR RELATIONS

During the Year, there had been no significant change in the company's constitutional documents. The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. In the year under review, the Company also communicates with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

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

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. TSE Kam Pang, aged 58, is the Chairman and the Chief Executive Officer of the Company. 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. CHANG Chu Fai Johnson Francis, aged 58, has been appointed as the Vice Chairman and redesignated as an Executive Director of the Company with effect from 1 August 2012. Mr. Chang has also resigned as the Chairman and the member of the Remuneration Committee, the member of the Audit Committee and the member of the Nomination Committee of the Company with effect from 3 August 2012. He had been an Independent Non-executive Director from July 2005 to July 2012. 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-six 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. ZENG Lejin, 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 50, is the co-founder 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.

Mr. TSE Wun Cheung, aged 41, holds a Bachelor Degree of Engineering majoring in Mechanical Engineering from The University of Hong Kong. He has extensive experience in enterprise management mainly focusing in manufacturing and purchasing. Mr. Tse is also a nephew of Mr. Tse Kam Pang, being the Chairman of the Company.

Independent Non-Executive Directors

Dr. Donald H. STRASZHEIM, aged 71, 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. 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, 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 35, 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 40, 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 2012 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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 95.

No interim dividend was declared and paid during the year. The directors recommend the payment of a final dividend of HK0.55 cents per ordinary share (note 12) in respect of the year, to shareholders whose names appear on the register of members on 29 May 2013. 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.

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 96. 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 29 and 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries 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 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$67.3 million of which HK$6.4 million has been proposed as final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions (2011: HK$Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 4.19% of the total sales for the year and sales to the largest customer included therein amounted to 1.14%. Purchases from the Group's five largest suppliers accounted for approximately 14.58% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 3.62%.

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.

DIRECTORS

The Directors of the Company during the year were:

Executive directors:
Mr. Tse Kam Pang *(Chairman, Chief Executive Officer appointed on 1 August 2012)*
Mr. Chang Chu Fai J. Francis *(Vice Chairman appointed on 1 August 2012)*
Mr. Ma Gary Ming Fai *(Chief Executive Officer resigned on 1 August 2012)*
Mr. Zeng Lejin *(Chief Operating Officer)*
Mr. Lam Toi
Mr. Tse Wun Cheung *(appointed on 15 June 2012)*

Independent non-executive Directors:
Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew
Mr. Chang Chu Fai J. Francis *(redesignated as an Executive Director on 1 August 2012)*

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. Lau Chi Kit and Mr. Yue Man Yiu Matthew as at the date of this report still considers them to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 21 and 22 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. Chang Chu Fai J. Francis, has entered into a service agreement with the Company for a term of two years commencing from 1 August 2012, 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. Tse Wun Cheung has entered into a service agreement with the Company for a term of two years commencing from 15 June 2012, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other.

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. Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew has entered into a service agreement with the Company for a term of two years commencing from 18 May 2012, which will be automatically renewed thereafter until terminated by two months' prior notice in writing served by either party to the other. 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2012, 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:

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)	49,367,769	395,609,042	444,976,811	38.31
Mr. Chang Chu Fai J. Francis	(d)	5,440,271	–	5,440,271	0.47
Mr. Zeng Lejin	(b), (d)	7,319,222	–	7,319,222	0.63
Mr. Tse Wun Cheung	(c)	8,685,853	–	8,685,853	0.75
Dr. Donald H. Straszheim	(d)	1,263,547	–	1,263,547	0.11

Notes:

(a) Of these 444,976,811 Shares, 185,840,120 Shares are held by Crisana International Inc. ("Crisana") and 209,768,922 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 444,976,811 Shares held by these companies.

(b) The 4,034,000 Shares are directly beneficially owned by Mr. Zeng Lejin.

(c) The 8,685,853 Shares are directly beneficially owned by Mr. Tse Wun Cheung.

(d) These represent Shares to be issued upon exercise of the share options granted to them, details of which are set out in note 30 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 2012, 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2012, 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	185,840,120	16.00%
Charming Future	(b)	Directly beneficially owned	209,768,922	18.06%

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.

Save as disclosed above, as at 31 December 2012, 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 2012 was 3,770 (2011: 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 2012, there were 13,147,906 outstanding share options.

REPORT OF THE DIRECTORS

Details of the remuneration of the Directors are set out in note 8 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2012 were within the following bands:

Bands	**Number of Senior Management**
HK$ 100,000 to HK$ 500,000	1
HK$ 500,000 to HK$ 1,000,000	2
Total:	3

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 8 to 20.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors of the Company. The financial statements of the Group and of the Company for the year ended 31 December 2012 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, Chief Executive Officer and Executive Director

Hong Kong
28 March 2013

INDEPENDENT AUDITORS' REPORT

安 永

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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 31 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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' judgment, 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.

INDEPENDENT AUDITORS' REPORT

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 2012, 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
28 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**1,063,736**	1,547,318
Cost of sales		**(753,375)**	(1,060,671)
Gross profit		**310,361**	486,647
Other income	5	**14,910**	10,404
Selling and distribution expenses		**(180,850)**	(155,739)
Administrative expenses		**(96,771)**	(83,270)
Finance costs	7	**(18,764)**	(7,405)
Share of profits of associates		**5,023**	5,216
PROFIT BEFORE TAX	6	**33,909**	255,853
Income tax expense	10	**(8,895)**	(21,537)
PROFIT FOR THE YEAR		**25,014**	234,316
Attributable to:			
Owners of the Company	11	**21,629**	228,241
Non-controlling interests		**3,385**	6,075
		25,014	234,316
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		(restated)
Basic		**2.46 cents**	27.17 cents
Diluted		**2.44 cents**	26.34 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 2012

	Notes	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR		**25,014**	234,316
OTHER COMPREHENSIVE INCOME			
Gain on property revaluation	14	**45,981**	134,183
Income tax effect	28	**(8,556)**	(33,546)
		37,425	100,637
Changes in fair value of available-for-sale investments, net of tax	20	**2,115**	(1,434)
Exchange differences on translation of foreign operations		**10,030**	35,181
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**49,570**	134,384
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**74,584**	368,700
Attributable to:			
Owners of the Company		**70,350**	361,361
Non-controlling interests		**4,234**	7,339
		74,584	368,700

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,285,522**	1,120,640
Prepaid land lease payments	15	**211,862**	144,376
Goodwill	16	**190,868**	123,137
Intangible assets	17	**1,397**	2,344
Investments in associates	19	**53,370**	56,816
Available-for-sale investments	20	**8,137**	6,022
Total non-current assets		**1,751,156**	1,453,335
CURRENT ASSETS			
Inventories	21	**322,407**	255,293
Trade receivables	22	**91,683**	76,804
Prepayments, deposits and other receivables	23	**184,658**	186,799
Pledged deposits	24	**20,000**	20,000
Cash and cash equivalents	24	**408,471**	304,135
Total current assets		**1,027,219**	843,031
CURRENT LIABILITIES			
Trade payables	25	**76,791**	88,075
Other payables and accruals	26	**196,027**	124,539
Interest-bearing bank loans	27	**338,445**	149,054
Tax payable		**105,190**	97,219
Total current liabilities		**716,453**	458,887
NET CURRENT ASSETS		**310,766**	384,144
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,061,922**	1,837,479

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
TOTAL ASSET LESS CURRENT LIABILITIES		**2,061,922**	1,837,479
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	**244,457**	264,700
Deferred tax liabilities	28	**41,385**	34,377
Total non-current liabilities		**285,842**	299,077
Net assets		**1,776,080**	1,538,402
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**116,138**	68,232
Reserves	31(a)	**1,538,658**	1,328,480
Proposed final dividend	12	**6,388**	54,610
		1,661,184	1,451,322
Non-controlling interests		**114,896**	87,080
Total equity		**1,776,080**	1,538,402

TSE Kam Pang
Director

TSE Wun Cheung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'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 dividends	29	1,547	48,998	–	–	–	–	–	–	–	50,545	–	50,545
Equity-settled share option expense	30	–	–	12,939	–	–	–	–	–	–	12,939	–	12,939
Share options exercised	29	2,897	32,210	(8,919)	–	–	–	–	–	–	26,188	–	26,188
Capital injection in a new subsidiary		–	–	–	–	–	–	–	–	–	–	61,695	61,695
Dividend paid to a 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	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'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 2012		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
Profit for the year		–	–	–	–	–	–	–	21,629	–	21,629	3,385	25,014
Other comprehensive income for the year:													
Gains on property revaluation, net of tax		–	–	–	37,425	–	–	–	–	–	37,425	–	37,425
Change in fair value of available-for-sale investments, net of tax	20	–	–	–	–	2,115	–	–	–	–	2,115	–	2,115
Exchange differences on translation of foreign operations		–	–	–	–	–	–	9,181	–	–	9,181	849	10,030
Total comprehensive income for the year		–	–	–	37,425	2,115	–	9,181	21,629	–	70,350	4,234	74,584
Final 2011 dividend declared	12	–	–	–	–	–	–	–	–	(54,610)	(54,610)	–	(54,610)
Equity-settled share option expense	30	–	–	7,246	–	–	–	–	–	–	7,246	–	7,246
Issue of shares	29(a)	648	2,799	(390)	–	–	–	–	–	–	3,057	–	3,057
Cancellation of share options	30	–	–	(27,087)	–	–	–	–	27,834	–	747	–	747
Bonus issue	29(b)	8,545	(8,545)	–	–	–	–	–	–	–	–	–	–
Open offer	29(c)	38,713	158,722	–	–	–	–	–	–	–	197,435	–	197,435
Open offer expenses	29(c)	–	(6,686)	–	–	–	–	–	–	–	(6,686)	–	(6,686)
Capital injection in a subsidiary		–	–	–	–	–	–	–	–	–	–	27,840	27,840
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(7,807)	(7,807)
Acquisition of a subsidiary	32	–	–	–	–	–	–	–	–	–	–	7,067	7,067
Acquisition of additional interests in a subsidiary		–	–	–	–	–	–	–	(7,677)	–	(7,677)	(3,518)	(11,195)
Proposed final 2012 dividend	12	–	–	–	–	–	–	–	(6,388)	6,388	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	2,019	–	(2,019)	–	–	–	–
At 31 December 2012		116,138	761,230*	1,312*	138,062*	(295)*	6,310*	164,361*	467,678*	6,388	1,661,184	114,896	1,776,080

* These reserve accounts comprise the consolidated reserves of HK$1,538,658,000 (2011: HK$1,328,480,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**33,909**	255,853
Adjustments for:			
Finance costs	7	**18,764**	7,405
Share of profits of associates		**(5,023)**	(5,216)
Bank interest income	5	**(1,092)**	(782)
Other interest income	5	**(3,258)**	(2,147)
Loss on disposal of items of property, plant and equipment	6	**2,088**	1,829
Depreciation	6	**61,561**	57,727
Recognition of prepaid land lease payments	6	**4,994**	2,616
Amortisation of intangible assets	6	**974**	966
Equity-settled share option expense	30	**7,246**	12,939
Expenses recognised for cancellation of share options	30	**747**	–
		120,910	331,190
Increase in inventories		**(47,423)**	(33,175)
Increase in trade receivables		**(14,257)**	(21,148)
Decrease/(increase) in prepayments, deposits and other receivables		**8,119**	(29,746)
Decrease in trade payables		**(14,373)**	(14,332)
Increase in other payables and accruals		**66,112**	15,090
Cash generated from operations		**119,088**	247,879
Income taxes paid		**(3,760)**	(2,452)
Net cash flows from operating activities		**115,328**	245,427

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows from operating activities		**115,328**	245,427
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,350**	2,929
Decrease in loans to an associate		**8,469**	12,728
Purchases of items of property, plant and equipment	14	**(175,595)**	(504,603)
Additions to prepaid land lease payments	15	**(72,782)**	(50,042)
Proceeds from disposal of items of property, plant and equipment		**4,655**	3,035
Increase in pledged deposits		**–**	(20,000)
Acquisition of a subsidiary	32	**(80,464)**	907
Acquisition of additional interests in a subsidiary		**(11,195)**	–
Net cash flows used in investing activities		**(322,562)**	(555,046)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29(a)	**3,057**	26,188
Net proceeds from open offer	29(c)	**190,749**	–
Capital injection in a subsidiary from the non-controlling shareholder		**27,840**	61,695
Dividend paid to the non-controlling shareholders		**(7,807)**	(4,215)
New bank loans		**318,248**	440,207
Repayment of bank loans		**(149,100)**	(121,644)
Interest paid		**(18,764)**	(7,405)
Dividends paid	12	**(54,610)**	(27,334)
Net cash flows from financing activities		**309,613**	367,492
NET INCREASE IN CASH AND CASH EQUIVALENTS		**102,379**	57,873
Cash and cash equivalents at beginning of year		**304,135**	238,199
Effect of foreign exchange rate changes, net		**1,957**	8,063
CASH AND CASH EQUIVALENTS AT END OF YEAR		**408,471**	304,135
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**408,471**	304,135
Cash and cash equivalents as stated in the consolidated statement of financial position		**408,471**	304,135
Cash and cash equivalents as stated in the consolidated statement of cash flows		**408,471**	304,135

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**1,344,115**	1,074,088
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**3,093**	4,150
Cash and cash equivalents	24	**247**	141
Total current assets		**3,340**	4,291
CURRENT LIABILITIES			
Other payables	26	**3,212**	859
Interest-bearing bank loans	27	**168,747**	–
Total current liabilities		**171,959**	859
NET CURRENT (LIABILITIES)/ASSETS		**(168,619)**	3,432
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,175,496**	1,077,520
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	**224,996**	243,495
Financial guarantee contracts	33	**4,473**	–
Total non-current liabilities		**229,469**	243,495
Net assets		**946,027**	834,025
EQUITY			
Issued capital	29	**116,138**	68,232
Reserves	31(b)	**823,501**	711,183
Proposed final dividend	12	**6,388**	54,610
Total equity		**946,027**	834,025

TSE Kam Pang
Director

TSE Wun Cheung
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 Company are Crisana International Inc. and Charming Future Holdings 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except available-for-sale investments and the buildings classified as property, plant and equipment, 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 2012. 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 it 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 revised HKFRSs for the first time for the current year's 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 Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs had no significant financial effect on these financial statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement.* This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities.* HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements,* HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. 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 are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 to measure 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-related 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.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 an 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 an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party 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;

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

(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).

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 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 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.

An item of property, plant and equipment including 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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 their estimated useful lives of 8 to 10 years.

Research and development costs

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other 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 as 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 revaluation 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 investment 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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 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.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and 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 write-off is later recovered, the recovery is credited to the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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.

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, net of directly attributable transaction costs.

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing bank 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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, 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and 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.

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 recognised 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; and

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

Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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 a binomial model, further details of which are given in note 30 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 payments, 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.

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 a 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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.

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 prevailing 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

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 its earnings, from 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. As at 31 December 2012, the aggregate unremitted earnings of HK$48,664,000 (2011: HK$46,654,000) that are subject to withholding taxes of the Group's subsidiaries established in Mainland China were considered to be indefinitely reinvested and accordingly, the related deferred tax liabilities of HK$4,866,000 at 31 December 2012 (2011: HK$4,665,000) were not recognised. For details, please refer to note 28 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 2012 was HK$190,868,000 (2011: HK$123,317,000). 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.

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 2012, impairment losses of HK$12,103,000 have been recognised for trade receivables (2011: HK$12,387,000). Further details are given in note 22 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 30 to the financial statements.

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single operating segment.

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2011: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. REVENUE AND OTHER INCOME

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 and other income is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Sale of goods	**1,063,736**	1,547,318
Other income		
Bank interest income	**1,092**	782
Other interest income	**3,258**	2,147
Sales of scraps	**10,560**	7,475
	14,910	10,404

6. PROFIT BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold		**753,375**	1,057,328
Depreciation of items of property, plant and equipment	14	**61,561**	57,727
Recognition of prepaid land lease payments	15	**4,994**	2,616
Amortisation of intangible assets*	17	**974**	966
Loss on disposal of items of property, plant and equipment		**2,088**	1,829
Research and development costs*		**8,633**	11,859
Minimum lease payments under operating leases:			
Land and buildings		**79,155**	56,169
Auditors' remuneration		**1,980**	1,980
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**184,184**	164,284
Equity-settled share option expense	30	**7,246**	12,939
Expenses recognised for cancellation of share options	30	**747**	—
Pension scheme contributions		**11,989**	8,221
		204,166	185,444
(Reversal of impairment)/impairment of trade receivables	22	**(385)**	2,951
Write-down of inventories to net realisable value		**—**	3,343

* 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

7. FINANCE COSTS

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on bank loans:		
Wholly repayable within five years	**18,426**	6,895
Wholly repayable over five years	**338**	510
	18,764	7,405

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	
	2012	2011
	HK$'000	HK$'000
Fees	**2,295**	2,009
Other emoluments:		
Salaries, allowances and benefits in kind	**8,636**	11,076
Discretionary bonuses	**652**	–
Equity-settled share option expense	**2,443**	1,467
Pension scheme contributions	**5**	–
	14,031	14,552

During the year, certain directors 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 30 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012						
Executive directors:						
Mr. Tse Kam Pang	300	2,850	300	–	–	3,450
Mr. Ma Gary Ming Fai (resigned on 1 August 2012)	175	1,764	252	–	–	2,191
Mr. Chang Chu Fai, J. Francis* (appointed on 1 August 2012)	125	495	–	98	5	723
Mr. Zeng Lejin	300	950	100	–	–	1,350
Mr. Lam Toi	300	2,052	–	–	–	2,352
Mr. Tse Wun Cheung* (appointed on 15 June 2012)	163	525	–	1,224	–	1,912
	1,363	8,636	652	1,322	5	11,978
Independent non-executive directors:						
Dr. Donald H. Straszheim	312	–	–	–	–	312
Mr. Chang Chu Fai, J. Francis (resigned on 1 August 2012)	140	–	–	–	–	140
Mr. Lau Chi Kit, Edwin	240	–	–	491	–	731
Mr. Yue Man Yiu, Matthew	240	–	–	630	–	870
	932	–	–	1,121	–	2,053
	2,295	8,636	652	2,443	5	14,031

* The remuneration was calculated from the commencement of the appointment as director.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions 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 Gary Ming Fai	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 (resigned on 18 August 2011)	151	–	–	–	–	151
Mr. Chang Chu Fai, J. 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

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2011: 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	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**886**	900
Performance-related bonuses	**–**	30
Equity-settled share option expense	**–**	449
Pension scheme contributions	**14**	–
	900	1,379

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	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 (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2012	2011
	HK$'000	HK$'000
Current — PRC corporate income tax	**10,443**	21,555
Deferred (note 28)	**(1,548)**	(18)
	8,895	21,537

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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			
	2012		2011	
	HK$'000	**%**	HK$'000	%
Profit before tax	**33,909**		255,853	
Tax at the applicable tax rate at 25% (2011: 25%)	**8,477**	**25.0**	63,963	25.0
Lower income tax rates for specific provinces or enacted by local authority	**(7,218)**	**(21.3)**	(46,905)	(18.3)
Profits attributable to associates	**(1,256)**	**(3.7)**	(1,304)	(0.5)
Expenses not deductible for tax	**4,216**	**12.4**	4,107	1.6
Tax losses not recognised	**7,311**	**21.6**	4,197	1.6
Tax losses utilised	**(2,635)**	**(7.8)**	(2,521)	(1.0)
Tax charge at the Group's effective rate	**8,895**	**26.2**	21,537	8.4

The share of tax attributable to associates amounting to HK$1,674,000 (2011: HK$1,025,000), 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$84,399,000 (2011: HK$56,175,000) 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 2012.

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 ("Sinofull"), a subsidiary of the Group, is qualified as a 58/99/M company.

According to the Income Tax Law of the PRC on enterprises with foreign investment and foreign enterprises, Guangzhou Yufa Furniture Company Limited ("Yufa") and Guangzhou Fuli Furniture Company Limited ("Fuli"), wholly-owned subsidiaries of the Company established in Guangzhou, 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 tax rate for Yufa and Fuli was 12.5% as they were in their fifth profit-making year.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$7,353,000 (2011: a profit of HK$63,630,000), which has been dealt with in the financial statements of the Company (note 31(b)).

NOTES TO FINANCIAL STATEMENTS

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12. DIVIDENDS

	Group	
	2012	2011
	HK$'000	HK$'000
Interim — Nil (2011: HK3.00 cents) per ordinary share	**–**	20,470
Proposed final — HK0.55 cents (2011: HK8.00 cents) per ordinary share	**6,388**	54,610
	6,388	75,080

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 879,315,208 (2011 (restated): 840,051,821) in issue during the year, as adjusted to reflect the bonus issue and the bonus element inherent in the open offer 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:

	2012	2011
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations	**21,629**	228,241

	Number of shares	
	2012	2011 (restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**879,315,208**	840,051,821
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,349,614**	26,470,945
	887,664,822	866,522,766

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 2012							
At 31 December 2011 and at 1 January 2012:							
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
At 1 January 2012, net of accumulated depreciation	452,700	20,343	87,941	4,227	6,740	548,689	1,120,640
Additions	2,774	13,472	5,045	36,076	1,753	116,475	175,595
Acquisition of a subsidiary (note 32)	–	–	3,023	91	217	–	3,331
Disposals	(1,306)	(4,957)	(428)	–	(52)	–	(6,743)
Depreciation provided during the year	(30,953)	(8,086)	(17,965)	(2,437)	(2,120)	–	(61,561)
Surplus on revaluation	45,981	–	–	–	–	–	45,981
Exchange realignment	3,305	204	723	15	51	3,981	8,279
At 31 December 2012, net of accumulated depreciation	472,501	20,976	78,339	37,972	6,589	669,145	1,285,522
At 31 December 2012:							
Cost or valuation	472,501	61,767	187,690	55,121	20,477	669,145	1,466,701
Accumulated depreciation	–	(40,791)	(109,351)	(17,149)	(13,888)	–	(181,179)
Net carrying amount	472,501	20,976	78,339	37,972	6,589	669,145	1,285,522
Analysis of cost or valuation:							
At cost	–	61,767	187,690	55,121	20,477	669,145	994,200
At valuation	472,501	–	–	–	–	–	472,501
	472,501	61,767	187,690	55,121	20,477	669,145	1,466,701

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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 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	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

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$472,501,000 based on their existing use. A revaluation surplus of HK$45,981,000 (2011: HK$134,183,000) resulting from the above valuations has been credited to other comprehensive income.

At 31 December 2012, the Group's building located in Hong Kong with a net carrying value of approximately HK$54,000,000 (the "HK Building") was pledged under certain mortgage loans (note 27). Certain of the Group's buildings located in Mainland China with a net carrying value of HK$160,750,000 and a piece of leasehold land located in Mainland China with a net carrying value of HK$21,119,000 (note 15) were pledged to a bank to obtain a banking facility of HK$74,634,000 (the "Bank Facility"). At 31 December 2012, the Group's has not utilised the Bank Facility.

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15. PREPAID LAND LEASE PAYMENTS

	Group 2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**147,810**	95,873
Additions during the year	**72,782**	50,042
Recognised during the year	**(4,994)**	(2,616)
Exchange realignment	**1,173**	4,511
Carrying amount at 31 December	**216,771**	147,810
Current portion included in prepayments, deposits and other receivables	**(4,909)**	(3,434)
Non-current portion	**211,862**	144,376

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

	2012 HK$'000	2011 HK$'000
Long term lease	**170,054**	101,684
Medium term lease	**41,808**	42,692
	211,862	144,376

All the Group's leasehold land is situated in Mainland China with terms from 38 years to 50 years.

As at 31 December 2012, the Group's land with a net carrying value of HK$21,119,000 was pledged to obtain the Bank Facility (note 14).

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16. GOODWILL

Group

	HK$'000
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	58,710
At 31 December 2011	123,137
At 1 January 2012:	
Cost	239,482
Accumulated impairment	(116,345)
Net carrying amount	123,137
Cost at 1 January 2012, net of accumulated impairment	123,137
Acquisition of a subsidiary (note 32)	67,731
At 31 December 2012	190,868
At 31 December 2012:	
Cost	307,213
Accumulated impairment	(116,345)
Net carrying amount	190,868

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16. GOODWILL (Continued)

Impairment testing of goodwill

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

The recoverable amount of the franchise operation cash-generating unit 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 18.3% and cash flows beyond the five-year period were extrapolated using a growth rate of 3.0%.

Assumptions were used in the value in use calculation of the home furniture cash-generating units for 31 December 2012. 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 before 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

	Patents and licences	
	2012	2011
	HK$'000	HK$'000
At 1 January:		
Cost	**8,355**	8,022
Accumulated amortisation	**(6,011)**	(4,844)
Net carrying amount	**2,344**	3,178
Cost at 1 January, net of accumulated amortisation	**2,344**	3,178
Amortisation provided during the year	**(974)**	(966)
Exchange realignment	**27**	132
Cost at 31 December, net of accumulated amortisation	**1,397**	2,344
At 31 December:		
Cost	**8,443**	8,355
Accumulated amortisation	**(7,046)**	(6,011)
Net carrying amount	**1,397**	2,344

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18. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted shares, at cost	**91,744**	91,744
Loans to subsidiaries	**1,246,586**	963,555
Capital contribution in respect of employee share-based compensation	**1,312**	18,789
Financial guarantee contracts	**4,473**	–
	1,344,115	1,074,088

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

Particulars of the principal subsidiaries directly or indirectly held by the Company as at 31 December 2012 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1,000	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary US$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Investment holding
Wanlibao (Guangzhou) Furniture Limited*	PRC	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacture and sale of furniture
Guangzhou Full Fat Furniture Limited*	PRC	Mainland China	Paid-up registered HK$26,000,000	–	100	Manufacture and sale of furniture
Simply (Dongguan) Furniture Limited*	PRC	Mainland China	Paid-up registered HK$18,000,000	–	100	Manufacture and sale of furniture
Yufa	PRC	Mainland China	Paid-up registered HK$50,800,000	–	100	Manufacture and sale of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macau	Ordinary US$1	–	100	Sale of furniture
Fuli	PRC	Mainland China	Ordinary HK$65,000,000	–	100	Manufacture and sale of furniture

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31 December 2012

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		Principal activities
				Direct	Indirect	
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	Investment holding
Sinofull	Macau	Macau	Ordinary HK$10,000	–	100	Sale of furniture
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
Jiangxi Furun Furniture Company Limited*	PRC	Mainland China	Ordinary US$15,000,000	–	100	Manufacture and sale of furniture
Harbin Royal Furniture Company Limited*	PRC	Mainland China	Ordinary HK$20,000,000	–	100	Sale of furniture
Shenzhen Bokaimai Furniture Company Limited ("Bokaimai")***	PRC	Mainland China	Ordinary RMB2,000,000	–	65	Manufacture and sale of furniture
Tianjin Royal Furniture Company Limited	PRC	Mainland China	Ordinary RMB150,000,000	–	55	Manufacture and sale of furniture

* These subsidiaries are registered as wholly-foreign-owned enterprises under 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.

*** Bokaimai was acquired in the current year. Further details of the acquisition are included in note 32 to 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.

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19. INVESTMENTS IN ASSOCIATES

	Group 2012 HK$'000	2011 HK$'000
Share of net assets	**35,063**	30,040
Goodwill on acquisition	**18,307**	18,307
	53,370	48,347
Due from an associate	**–**	8,469
	53,370	56,816

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:

	2012 HK$'000	2011 HK$'000
Assets	**145,185**	157,248
Liabilities	**67,019**	97,750
Revenue	**132,055**	142,350
Profit	**12,646**	15,619

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20. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments, at fair value – Hong Kong	**8,137**	6,022

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$2,115,000 (2011: loss of HK$1,434,000).

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. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**94,118**	71,774
Work in progress	**60,762**	21,193
Finished goods	**167,527**	162,326
	322,407	255,293

22. TRADE RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**103,786**	89,191
Impairment	**(12,103)**	(12,387)
	91,683	76,804

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.

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22. TRADE RECEIVABLES (Continued)

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	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**77,454**	35,507
31 to 90 days	**11,240**	17,711
91 to 180 days	**2,989**	21,545
Over 180 days	**–**	2,041
	91,683	76,804

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**12,387**	9,242
Impairment losses (reversed)/recognised (note 6)	**(385)**	2,951
Write off	**–**	(257)
Exchange realignment	**101**	451
At 31 December	**12,103**	12,387

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

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**88,694**	53,218
One to three months past due	**2,989**	21,545
Over three months past due	**–**	2,041
	91,683	76,804

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.

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**54,066**	34,336	**3,093**	4,150
Deposits	**17,639**	8,782	**–**	–
Due from an associate	**7,706**	18,657	**–**	–
Other receivables	**105,247**	125,024	**–**	–
	184,658	186,799	**3,093**	4,150

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

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**408,471**	304,135	**247**	141
Time deposits	**20,000**	20,000	**–**	–
	428,471	324,135	**247**	141
Less: Pledged time deposits:				
Pledged for short term bank loans (note 27)	**(20,000)**	(20,000)	**–**	–
Cash and cash equivalents	**408,471**	304,135	**247**	141

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$197,812,000 (2011: HK$232,314,000). 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.

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25. 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	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**40,490**	51,677
31 to 90 days	**33,596**	28,914
91 to 180 days	**596**	5,296
181 to 360 days	**1,483**	1,436
Over 360 days	**626**	752
	76,791	88,075

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances from customers	**50,744**	22,937	**–**	–
Other payables	**119,317**	81,239	**3,212**	859
Accruals	**25,966**	20,363	**–**	–
	196,027	124,539	**3,212**	859

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

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27. INTEREST-BEARING BANK LOANS

		Group				Company			
		2012		2011		2012		2011	
		Maturity	HK$'000	Maturity	HK$'000	Maturity	HK$'000	Maturity	HK$'000
Current									
Bank loans									
Guaranteed	(i)(d)	On demand	150,000	2012	10,000		–		–
Secured	(i)(c)	2013	10,000	2012	49,356		–		–
Guaranteed & secured	(i)(b)	2013	8,000	2012	8,000		–		–
Current portion of long term bank loans									
Guaranteed				2012	80,000		–		–
Secured	(i)(a)	2013	1,698	2012	1,698		–		–
Guaranteed & secured	(i)(e)/(ii)	2013	168,747		–	2013	168,747		–
			338,445		149,054		168,747		–
Non-current									
Bank loans									
Secured	(i)(a)	2014-2024	19,461	2013-2024	21,205		–		–
Guaranteed & secured	(i)(e)/(ii)	2014	224,996	2013-2014	243,495	2014	224,996	2013-2014	243,495
			244,457		264,700		224,996		243,495
			582,902		413,754		393,743		243,495
Analysed into:									
Within one year or on demand			338,445		149,054		168,747		–
In the second year			226,694		1,729		224,996		–
In the third to fifth years, inclusive			5,094		248,879		–		243,495
Beyond five years			12,669		14,092		–		–
			582,902		413,754		393,743		243,495

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27. INTEREST-BEARING BANK LOANS (Continued)

(i) As at 31 December 2012, the Group's interest-bearing bank borrowings are bank advances comprising (a) bank borrowings of HK$21,159,000 which are secured by the HK Building with a net carrying value of approximately HK$54,000,000 (note 14); (b) bank borrowings of HK$8,000,000 which are secured by the HK Building and are guaranteed by the Company; (c) bank borrowings of HK$10,000,000 which are secured by the pledge of certain of the Group's time deposits amounting to HK$20,000,000 (note 24); (d) bank borrowings of HK$150,000,000 which are jointly guaranteed by the Company and its certain subsidiaries; (e) bank borrowings of HK$393,743,000 which are secured by the pledge over shares of entire shareholding interest in a subsidiary and are jointly guaranteed by certain subsidiaries of the Company.

(ii) 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, the Chairman 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 31 December 2012, this obligation has been complied with.

At the end of the reporting period, the Group had fully utilised the Facility with a total amount of HK$393,743,000.

(iii) As at 31 December 2012, the Group's short term bank loans bore interest at rates ranging from HIBOR+1.75% to 1.5% below the base lending rate per annum. The Group's long term bank loans bore interest at rates ranging from HIBOR+2.75% to 1.5% below the base lending rate per annum.

(iv) As at 31 December 2012, bank loans denominated in Hong Kong dollars amounted to approximately HK$397,159,500 and bank loans denominated in United States dollars amounted approximately HK$185,742,500.

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28. 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 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 and 1 January 2012	33,546	831	34,377
Deferred tax charged to other comprehensive income	8,556	–	8,556
Deferred tax credited to the income statement during the year (note 10)	(1,530)	(18)	(1,548)
Gross deferred tax liabilities at 31 December 2012	40,572	813	41,385

At 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of HK$48,664,000 (2011: HK$46,654,000) 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 these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$4,866,000 at 31 December 2012 (2011: HK$4,665,000).

29. SHARE CAPITAL

	2012 HK$'000	2011 HK$'000
Authorised: 2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid: 1,161,377,017 (2011: 682,323,418) ordinary shares of HK$0.10 each	**116,138**	68,232

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29. SHARE CAPITAL (Continued)

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

(a) The subscription rights attaching to 6,475,000 share options were exercised at subscription prices of HK$0.46 to HK$0.52 per share, resulting in the issue of 6,475,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$3,057,000. An amount of HK$390,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) Pursuant to the annual general meeting held on 18 May 2012, a bonus issue of shares on the basis of one share for every eight shares held was approved (the "Bonus Issue"). 85,452,927 bonus shares were issued under the Bonus Issue and the amount of HK$8,545,000 was capitalised from the Company's share premium account. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

(c) During the year, an open offer was made in the proportion of 1 offer share of HK$0.10 each for every 2 ordinary shares of HK$0.10 each held by the members on the register of members on 21 November 2012 at a subscription price of HK$0.51 per offer share (the "Open Offer"). As a result of the Open Offer, 387,125,672 additional ordinary shares of HK$0.10 each were issued and the net proceeds of HK$190,749,000, after deduction of the related expenses of HK$6,686,000, were received during the year.

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 2011	637,877,000	63,788	533,732	597,520
Share options exercised	28,974,910	2,897	32,210	35,107
Shares issued in lieu of dividends	15,471,508	1,547	48,998	50,545
At 31 December 2011	682,323,418	68,232	614,940	683,172
At 31 December 2011 and 1 January 2012	682,323,418	68,232	614,940	683,172
Share options exercised (a)	6,475,000	648	2,799	3,447
Bonus Issue (b)	85,452,927	8,545	(8,545)	–
Open Offer (c)	387,125,672	38,713	158,722	197,435
Open Offer expenses (c)	–	–	(6,686)	(6,686)
At 31 December 2012	1,161,377,017	116,138	761,230	877,368

Share options

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

30. SHARE OPTION SCHEME

The Company operates share option schemes in order to advance the interests of the Company and shareholders by enabling the Company to grant options to attract, retain and reward the eligible participants. The Company adopted the share option scheme (the "Scheme") became effective on 18 May 2012 to replace the old share option scheme which was expired on 25 April 2012. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option 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 its 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 of the closing prices 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.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

30. SHARE OPTION SCHEME (Continued)

Name or category of participant	At 1 January 2012	Exercised during the year	Granted during the year	Adjusted during the year**	Cancelled during the year***	Number of share options at 31 December 2012	Date of grant of share options*	Exercise period of share options	Exercise price of share options** per share	Price of the Company's shares at grant date of options per share
Directors										
Donald H. Straszheim	1,000,000	–	–	263,547	–	1,263,547	20/7/2009	20/7/2010 to 19/7/2019	0.41	0.52
Chang Chu Fai, J. Francis	750,000	–	–	197,660	–	947,660	20/7/2009	20/7/2010 to 19/7/2019	0.41	0.52
	–	–	4,000,000	492,611	–	4,492,611	7/9/2012	7/9/2013 to 6/9/2022	0.73	0.82
Lau Chi Kit	1,000,000	–	–	125,000	(1,125,000)	–	6/9/2011	6/9/2012 to 5/9/2021	2.25	2.28
Tse Wun Cheung	–	–	4,000,000	–	(4,000,000)	–	15/6/2012	15/6/2013 to 14/6/2022	1.63	1.63
Zeng Le Jin	2,600,000	–	–	685,222	–	3,285,222	20/7/2009	20/7/2010 to 19/7/2019	0.41	0.52
Yue Man Yiu, Matthew	1,000,000	–	–	125,000	(1,125,000)	–	17/11/2011	17/11/2012 to 16/11/2021	1.94	2.15
Others										
Members of senior management and other employees of the Group	7,400,000	(6,475,000)	–	970,320	–	1,895,320	20/7/2009	20/7/2010 to 19/7/2019	0.41	0.52
	500,000	–	–	131,773	–	631,773	14/4/2010	14/10/2011 to 13/4/2020	1.41	1.78
	500,000	–	–	131,773	–	631,773	14/4/2010	14/4/2012 to 13/4/2020	1.41	1.78
	12,000,000	–	–	1,500,000	(13,500,000)	–	9/7/2010	1/9/2011 to 8/1/2020	1.88	2.21
	250,000	–	–	31,250	(281,250)	–	20/7/2010	20/7/2012 to 19/7/2020	1.97	2.10
	250,000	–	–	31,250	(281,250)	–	22/7/2010	22/7/2011 to 21/7/2020	2.01	2.26
	500,000	–	–	62,500	(562,500)	–	3/1/2011	3/1/2012 to 2/1/2021	3.32	3.73
	500,000	–	–	62,500	(562,500)	–	3/1/2011	3/1/2013 to 2/1/2021	3.32	3.73
	3,000,000	–	–	375,000	(3,375,000)	–	31/1/2011	31/1/2012 to 30/1/2021	3.66	4.08
	8,000,000	–	–	1,000,000	(9,000,000)	–	10/6/2011	10/6/2012 to 9/6/2021	3.20	3.53
In aggregate	39,250,000	(6,475,000)	8,000,000	6,185,406	(33,812,500)	13,147,906				

NOTES TO FINANCIAL STATEMENTS

31 December 2012

30. SHARE OPTION SCHEME (Continued)

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

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

** The number of share options and the exercise price of the share options were adjusted as a result of the Bonus Issue and the Open Offer.

*** On 19 November 2012, with the approval of the board of the Company, the share options granted to certain directors and employees of the Group totalling 33,812,500 were cancelled (the "Cancellation"). The Cancellation resulted in the recognition of a share option expense of HK$747,000 that otherwise would have been recognised for services received over the remainder of the vesting period.

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.26 per share (2011: HK$3.56).

The fair value of the share options granted during the year was HK$2,462,000 (HK$0.31 each) (2011: HK$16,414,000 (HK$1.17 each)).

The Group recognised a share option expense of HK$7,246,000 (2011: HK$12,939,000) for the year ended 31 December 2012.

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:

	2012	2011
Dividend yield (%)	**4.7**	4.5
Volatility (%)	**51-53**	50.69-62.72
Risk-free interest rate (%)	**0.20-0.23**	0.19-0.58
Expected life of options (year)	**2**	2
Weighted average share price at the date of grant (HK$ per share)	**1.23**	3.56

The expected life of the options is based on the historical data over the past two 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 6,475,000 share options exercised during the year resulted in the issue of 6,475,000 ordinary shares of the Company and new share capital of HK$648,000 and share premium of HK$2,799,000 (before issue expenses), as further detailed in note 29(a) to the financial statements.

At the end of the reporting period, the Company had 13,147,906 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 13,147,906 additional ordinary shares of the Company and additional share capital of HK$1,315,000 and share premium of HK$6,777,000 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

30. SHARE OPTION SCHEME (Continued)

Subsequent to the end of the reporting period, on 2 January 2013, a total of 38,600,000 share options were granted to individuals in respect of their services to the Group in the forthcoming year. The closing price of the Company's shares at the date of grant was HK$0.79 per share. These share options shall have a validity period of 10 years from 2 January 2013 to 1 January 2023, both dates inclusive. 50% of the share options shall be vested on the date falling the first anniversary of the date of grant and exercisable from 2 January 2014 to 1 January 2023. The remaining 50% of the share options shall be vested on the date falling the second anniversary of the date of grant and exercisable from 2 January 2015 to 1 January 2023.

Including the forementioned 38,600,000 share options granted on 2 January 2013, at the date of approval of these financial statements, the Company had 51,747,906 share options outstanding under the Scheme, which represented approximately 4.46% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 35 to 36 of the financial statements.

(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 2011		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	29	48,998	–	–	–	48,998
Equity-settled share option expense	30	–	–	12,939	–	12,939
Share options exercised	29	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
Loss and total comprehensive loss for the year		–	–	–	(7,353)	(7,353)
Equity-settled share option expense	30	–	–	7,246	–	7,246
Issue of shares	29(a)	2,799	–	(390)	–	2,409
Cancellation of share options		–	–	(27,087)	–	(27,087)
Bonus Issue	29(b)	(8,545)	–	–	–	(8,545)
Open Offer	29(c)	158,722	–	–	–	158,722
Open Offer expenses	29(c)	(6,686)	–	–	–	(6,686)
Proposed final 2012 divided	12	–	–	–	(6,388)	(6,388)
At 31 December 2012		761,230	45,144	1,312	15,815	823,501

NOTES TO FINANCIAL STATEMENTS

31 December 2012

31. RESERVES (Continued)

(b) Company (Continued)

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation 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.

32. BUSINESS COMBINATIONS

On 4 June 2012, the Group acquired a 65% equity interest of Bokaimai, a furniture company in Mainland China, from Ms. Guo Xin Zhu (the "Vender") an independent third party, who held 100% equity interest in Bokaimai before the acquisition. Bokaimai is engaged in designing, manufacturing and distributing solid wood furniture products in European style through its own sales network in China. The purchase consideration for the acquisition was in the form of cash. The fair values of the identifiable assets and liabilities of Bokaimai as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	14	3,331
Cash and bank balances		390
Trade receivables and other receivables		3,689
Inventories		18,622
Trade payables		(2,175)
Accruals and other payables		(3,667)
Total identifiable net assets at fair value		20,190
Non-controlling interests		(7,067)
Goodwill on acquisition	16	67,731
Satisfied by cash		80,854

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 Bokaimai is as follows:

	HK$'000
Cash consideration	(80,854)
Cash and bank balances acquired	390
Net outflow of cash and cash equivalents included in cash flows from investing activities	(80,464)

NOTES TO FINANCIAL STATEMENTS

31 December 2012

32. BUSINESS COMBINATIONS (Continued)

The Vender undertakes to compensate the Group with any shortfall (if any) between the actual net profit after tax and the Vendor's expectation for the financial period from 1 June 2012 to 31 May 2013 (the "Profit Guarantee Period") according to the following formula:

(RMB 20 million — actual net profit after tax) x 5 x 65%

For the avoidance of doubt, where the actual net profit after tax of Bokaimai for the financial period is more than or equal to RMB20 million, no adjustment shall be made to the consideration.

The fair value of the profit guarantee as a contingent negative consideration at the acquisition date and at the end of the reporting period is zero and the forecasted net profit after tax of Bokaimai for the Profit Guarantee Period is approximately RMB22,000,000.

Since the acquisition, Bokaimai contributed HK$35,270,000 to the Group's turnover and HK$5,197,000 to the consolidated profit for the year ended 31 December 2012.

33. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

Company	**2012 HK$'000**	2011 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**150,000**	—

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company amounted to HK$374,000,000, which were utilised to the extent of approximately HK$150,000,000. The carrying amount of the financial guarantee contracts recognised in the Company's statement of financial position in accordance with HKAS 39 and HKFRS 4 was HK$4,473,000. The financial guarnatee contracts were eliminated on consolidation.

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 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Within one year	**19,253**	38,780
In the second to fifth years, inclusive	**13,189**	8,328
After five years	**565**	2,041
	33,007	49,149

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

NOTES TO FINANCIAL STATEMENTS

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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	
	2012	2011
	HK$'000	HK$'000
Authorised, but not contracted for:		
Land and buildings	**128,573**	234,441
Plant and machinery	**98,712**	61,695
	227,285	296,136

At the end of the reporting period, the Group had no 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:

	Group	
	2012	2011
	HK$'000	HK$'000
Associates:		
Sales of products	**7,827**	9,829
Purchases of products	**–**	10,206

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.

(b) An outstanding balance with an associate as at the end of the reporting period is included in note 23 to the financial statements.

(c) Compensation of key management personnel of the Group

	Group	
	2012	2011
	HK$'000	HK$'000
Short term employee benefits	**12,469**	14,015
Equity-settled share option benefits	**2,443**	1,916
Pension scheme contributions	**19**	–
Total compensation paid to key management personnel	**14,931**	15,931

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

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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

2012	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivables	**91,683**	**–**	**91,683**
Available-for-sale investments	**–**	**8,137**	**8,137**
Financial assets included in prepayments, deposits and other receivables (note 23)	**130,592**	**–**	**130,592**
Pledged deposits	**20,000**	**–**	**20,000**
Cash and cash equivalents	**408,471**	**–**	**408,471**
	650,746	**8,137**	**658,883**

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 23)	152,463	–	152,463
Pledged deposits	20,000	–	20,000
Cash and cash equivalents	304,135	–	304,135
	553,402	6,022	559,424

NOTES TO FINANCIAL STATEMENTS

31 December 2012

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group

Financial liabilities

	2012 Financial liabilities at amortised cost HK$'000	2011 Financial liabilities at amortised cost HK$'000
Trade payables	76,791	88,075
Financial liabilities included in other payables and accruals (note 26)	127,111	74,331
Interest-bearing bank loans	582,902	413,754
	786,804	576,160

Company

Financial assets

	2012 Loans and receivables HK$'000	2011 Loans and receivables HK$'000
Cash and cash equivalents	247	141

Financial liabilities

	2012 Financial liabilities at amortised cost HK$'000	2011 Financial liabilities at amortised cost HK$'000
Other payables	3,212	859
Interest-bearing bank loans	393,743	243,495
Financial guarantee contracts	4,473	–
	401,428	244,354

NOTES TO FINANCIAL STATEMENTS

31 December 2012

38. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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 values 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 the 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 maturity.

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

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/increased by approximately HK$611,000 and HK$662,000 for the years ended 31 December 2012 and 2011, 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 3.1% (2011: 1.4%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2011: 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. 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 22 to the financial statements.

(iv) Liquidity risk

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

The 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	**2012**			
	On demand HK$'000	**Less than one year HK$'000**	**Over one year HK$'000**	**Total HK$'000**
Trade payables	**–**	**76,791**	**–**	**76,791**
Other payables and accruals	**–**	**127,111**	**–**	**127,111**
Interest-bearing bank loans	**150,000**	**194,429**	**266,996**	**611,425**
	150,000	**398,331**	**266,996**	**815,327**

Group	2011			
	On demand HK$'000	Less than one year HK$'000	Over one year HK$'000	Total HK$'000
Trade payables	–	88,075	–	88,075
Other payables and accruals	–	74,331	–	74,331
Interest-bearing bank loans	–	154,842	287,566	442,408
	–	317,248	287,566	604,814

NOTES TO FINANCIAL STATEMENTS

31 December 2012

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk (Continued)

Company	**2012**			
	On demand HK$'000	**Less than one year HK$'000**	**Over one year HK$'000**	**Total HK$'000**
Other payables	**–**	**3,212**	**–**	**3,212**
Interest-bearing bank loans	**–**	**174,251**	**242,790**	**417,041**
	–	**177,463**	**242,790**	**420,253**

Company	2011			
	On demand HK$'000	Less than one year HK$'000	Over one year HK$'000	Total HK$'000
Other payables	–	859	–	859
Interest-bearing bank loans	–	–	260,768	260,768
	–	859	260,768	261,627

(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 2012 and 2011.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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	2012 HK$'000	2011 HK$'000
Trade payables	**76,791**	88,075
Other payables and accruals	**196,027**	124,539
Interest-bearing bank loans	**582,902**	413,754
Less: Cash and cash equivalents	**(408,471)**	(304,135)
Net debt	**447,249**	322,233
Equity attributable to owners of the Company	**1,661,184**	1,451,322
Capital and net debt	**2,108,433**	1,773,555
Gearing ratio	**21%**	18%

40. EVENTS AFTER THE REPORTING PERIOD

On 2 January 2013, a total of 38,600,000 share options were granted to individuals in respect of their services to the Group in the forthcoming years. The closing price of the Company's shares at the date of grant was HK$0.79 per share. These share options shall have a validity period of 10 years from 2 January 2013 to 1 January 2023, both dates inclusive. 50% of the share options shall be vested on the date falling the first anniversary of the date of grant and exercisable from 2 January 2014 to 1 January 2023. The remaining 50% of the share options shall be vested on the date falling the second anniversary of the date of grant and exercisable from 2 January 2015 to 1 January 2023.

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 28 March 2013.

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				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000 (restated)	2008 HK$'000 (restated)
REVENUE	**1,063,736**	1,547,318	1,210,005	892,234	1,013,844
Cost of sales	**(753,375)**	(1,060,671)	(837,213)	(605,626)	(716,259)
Gross profit	**310,361**	486,647	372,792	286,608	297,585
Other income and gains	**14,910**	10,404	17,488	11,181	4,031
Share of profits of associates	**5,023**	5,216	6,330	3,352	376
Goodwill impairment	**–**	–	–	–	(111,688)
Selling and distribution costs	**(180,850)**	(155,739)	(127,459)	(105,936)	(195,117)
Administrative expenses	**(96,771)**	(83,270)	(61,541)	(57,215)	(68,345)
Other expenses	**–**	–	–	(2,649)	(10,884)
Finance costs	**(18,764)**	(7,405)	(3,483)	(1,164)	(3,196)
PROFIT/(LOSS) BEFORE TAX	**33,909**	255,853	204,127	134,177	(87,238)
Income tax expense	**(8,895)**	(21,537)	(13,422)	(3,711)	(2,302)
PROFIT/(LOSS) FOR THE YEAR	**25,014**	234,316	190,705	130,466	(89,540)
Attributable to:					
Owners of the Company	**21,629**	228,241	181,253	130,466	(89,626)
Non-controlling interests	**3,385**	6,075	9,452	–	86
	25,014	234,316	190,705	130,466	(89,540)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
TOTAL ASSETS	**2,778,375**	2,296,366	1,481,821	872,095	775,309
TOTAL LIABILITIES	**(1,002,295)**	(757,964)	(381,392)	(249,741)	(321,048)
NON-CONTROLLING INTERESTS	**(114,896)**	(87,080)	(22,261)	(4,528)	(4,528)
	1,661,184	1,451,322	1,078,168	617,826	449,733