THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in the Company, you should at once hand the Prospectus Documents to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

A copy of each of the Prospectus Documents has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. You should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange, HKSCC and the Registrar of Companies take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

Royal FURNITURE 皇朝傢俬

ROYALE FURNITURE HOLDINGS LIMITED

皇朝傢俬控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1198)

OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO EXISTING SHARES

Underwriter

Shenyin Wanguo Capital (H.K.) Limited

The latest time for acceptance and payment for the Offer Shares is 4:00 p.m. on Wednesday, 25 February 2009. The procedures for application are set out on pages 23 to 24 of this Prospectus.

The existing Shares have been dealt in on an ex-entitlement basis since Friday, 30 January 2009. Such dealing in Shares will take place whilst the conditions to which the Open Offer is subject remain unfulfilled. A person dealing in Shares on an ex-entitlement basis will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed. Shareholders contemplating any dealing in the Shares are recommended to consult their own professional adviser if they are in any doubt.

The Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company served prior to 4:00 p.m. on Friday, 27 February 2009 or such other time or date as the Company and the Underwriter may agree in writing to terminate the Underwriting Agreement on the occurrence of certain events including force majeure as set out in the section headed "Termination of the Underwriting Agreement" on pages 8 to 9 of this Prospectus.

If the Underwriter terminates the Underwriting Agreement, or if the conditions of the Underwriting Agreement are not fulfilled (or waived by the Underwriter) in accordance with the terms thereof, the Open Offer will not proceed. Shareholders should therefore exercise caution when dealing in the Shares, and if they are in any doubt about their position, they are recommended to consult their professional adviser.

11 February 2009

* *For identification purpose only*

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In this Prospectus, the following expressions shall, unless the context requires otherwise, have the following meanings:

"Announcement"	The announcement published by the Company on 15 January 2009 in relation to the Open Offer
"Application Form"	the application form for use by the Qualifying Shareholders to apply for the Offer Shares
"associates"	has the meaning ascribed to it under the Listing Rules
"Audited Accounts Date"	31 December 2007
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"CNI"	CNI Assets Management Ltd, a company incorporated in Hong Kong and is wholly-owned by Yau Chung Hong, an independent non-executive Director of the Company
"CNI Undertaking"	an irrevocable undertaking given by CNI in favour of the Company and the Underwriter to subscribe for all the Offer Shares it will be entitled under the Open Offer
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
"Company"	Royale Furniture Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules

"Crisana"	Crisana International Inc., a company incorporated in the British Virgin Islands with limited liability, being a substantial shareholder of the Company and is wholly owned by Tse Kam Pang, the Chairman and an executive Director
"Crisana Undertaking"	an irrevocable undertaking given by Crisana in favour of the Company and the Underwriter to subscribe for all the Offer Shares it will be entitled under the Open Offer
"Directors"	the directors of the Company for the time being
"Directors Undertakings"	an irrevocable undertaking given by each of the Directors in favour of the Company and the Underwriter (i) to subscribe for all the Offer Shares each will be entitled under the Open Offer; and (ii) not to exercise any of the right under the Options to convert part or all of the Options into Shares before completion of the Open Offer
"Excess Offer Shares"	the entitlements to Offer Shares that would otherwise have been offered to the Prohibited Shareholders, any Offer Shares offered to, but not accepted by, Qualifying Shareholders and any fractional entitlements
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party"	to the best knowledge, information and belief and having made all reasonable enquiries by the Directors, the party and its ultimate beneficial owner(s) (where applicable) are third parties independent of the Company and its connected persons
"Last Trading Day"	14 January 2009, being the last Trading Day of the Shares prior to the publication of the Announcement

"Latest Time for Acceptance"	being 4:00 p.m. on 25 February 2009, or such other date as the Company and the Underwriter may agree in writing, being the latest time for acceptance of the Offer Shares as described in the Prospectus
"Latest Practicable Date"	5 February 2009, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information referred in this Prospectus
"Latest Time for Termination"	being 4:00 p.m. on the second business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Offer Shares"	155,587,000 new Shares to be issued pursuant to the Open Offer
"Open Offer"	the offer of the Offer Shares on the basis of one Offer Share for every two existing Shares held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price
"Option(s)"	options granted by the Company under the Share Option Scheme
"Option Holders"	holders of the Options all being employees of the Company other than the Directors
"Option Holders Undertaking"	irrevocable undertakings given by the Option Holders in favour of the Company and the Underwriter not to exercise any of the right under the Options to convert part or all of the Options into Shares before completion of the Open Offer

"Overseas Shareholders"	Shareholders with registered address (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
"Prohibited Shareholders"	those Overseas Shareholders to whom the Company considers it necessary or expedient not to offer the Offer Shares where, in the opinion of the Board (having obtained relevant and necessary legal opinions), it would or might be unlawful or impracticable to offer Offer Shares in such places on account of any legal or regulatory restrictions or special formalities in such places
"Prospectus"	this prospectus
"Prospectus Documents"	the Prospectus and the Application Form
"Prospectus Posting Date"	11 February 2009 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
"Qualifying Shareholders"	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	9 February 2009, or such other date as the Company and the Underwriter may agree in writing, being the record date to determine entitlements to the Open Offer
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	existing ordinary shares of HK$0.1 each in the share capital of the Company
"Shareholders"	the holders of Shares
"Share Option Scheme"	the share option scheme adopted by the Company on 26 April 2002
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subscription Price"	the subscription price of HK$0.27 per Offer Share
"subsidiary"	has the same meaning ascribed thereto in section 2 of the Companies Ordinance and "subsidiaries" shall be construed accordingly
"substantial shareholder"	has the meaning ascribed to in the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Trading Day"	a day on which the Stock Exchange is open for trading
"Underwriter"	Shenyin Wanguo Capital (H.K.) Limited
"Underwriting Agreement"	the agreement dated 14 January 2009 between the Company and the Underwriter in relation to the underwriting and other arrangements in respect of the Open Offer
"Upwise"	Upwise Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Ma Gary Ming Fai, an executive Director
"Upwise Undertaking"	an irrevocable undertaking given by Upwise in favour of the Company and the Underwriter to subscribe for all the Offer shares it will be entitled under the Open Offer
"Underwritten Shares"	112,925,000 Offer Shares that the Underwriter have agreed to subscribe or procure subscribers to subscribe for, which are not subscribed by the Qualifying Shareholders (other than Crisana, Upwise, CNI and the Directors) pursuant to the Underwriting Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent

EXPECTED TIMETABLE

The expected timetable for the proposed Open Offer is set out below:

	2009
Last day of dealings in existing Shares on a cum-entitlement basis	**Thursday, 29 January**
Commencement date of dealings in existing Shares on an ex-entitlement basis	**Friday, 30 January**
Latest time for lodging transfers of Shares in order to qualify for the Open Offer	**4:00 pm on Monday, 2 February**
Register of members of the Company to be closed	**Tuesday, 3 February to Monday**, **9 February (both days inclusive)**
Record Date	**Monday, 9 February**
Register of members of the Company to be re-opened	**Tuesday, 10 February**
Prospectus Documents despatched	**Wednesday, 11 February**
Latest Time for Acceptance of, and payment for Offer Shares	**4:00 pm on Wednesday, 25 February**
Latest Time for Termination of the Underwriting Agreement	**4:00 pm on Friday, 27 February**
Announcement of results of Open Offer on or before	**Monday, 2 March**
If the Open Offer is terminated, refund cheques to be despatched on or before	**Wednesday, 4 March**
Certificates for Offer Shares expected to be despatched on or before	**Wednesday, 4 March**
Dealings in Offer Shares on the Stock Exchange to commence on	**Friday, 6 March**

All times and dates in this Prospectus refer to Hong Kong times and dates. Dates or deadlines specified above are indicative only and may be varied by agreement between the Company and the Underwriter. Any changes to the expected timetable above will be published or notified to the Shareholders appropriately.

Effect of bad weather on the Latest Time for Acceptance of and payment for Offer Shares

The latest time for acceptance of and payment for Offer Shares will not take place on the Latest Time for Acceptance if there is:

— a tropical cyclone warning signal number 8 or above, or

— a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Wednesday, 25 February 2009. Instead the Latest Time for Acceptance will be extended to 5: 00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Wednesday, 25 February 2009. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on Wednesday, 25 February 2009, the dates mentioned in the section headed "Expected Timetable" in this Prospectus may be affected. An announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events. If, at any time prior to the Latest Time for Termination (i.e. 27 February 2009 pursuant to the expected timetable), one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, exist, or come into effect:

(1) (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the reasonable opinion of any of the Underwriter, a material omission in the context of the Open Offer; or

(7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

upon the giving of termination notice by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save for any antecedent breaches thereof).

皇朝傢俬

ROYALE FURNITURE HOLDINGS LIMITED

皇朝傢俬控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1198)

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

Independent Non-Executive Directors:
Dr. Donald H Straszheim
Mr. Chang Chu Fai Johnson Francis
Mr. Yau Chung Hong

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business In Hong Kong:
Room 204, 2/F
Wing On Plaza
62 Mody Road
Tsimshatsui East
Kowloon

11 February 2009

To the Qualifying Shareholders,

Dear Sir or Madam,

OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY FIVE EXISTING SHARES INTRODUCTION

As stated in the Announcement, the Company and the Underwriter entered into the Underwriting Agreement on 14 January 2009 with a view of implementing the Open Offer. The Board proposes to raise approximately HK$42 million, before expenses, by issuing 155,587,000 Offer Shares at the Subscription Price of HK$0.27 per Offer Share by way of the Open Offer on the basis of one Offer Share for every two existing Shares held by the Qualifying Shareholders on the Record Date and payable in full upon acceptance.

** For identification purpose only*

The purpose of this Prospectus is to provide you with further information regarding the Open Offer, including information on procedures for application and payment and certain financial information and other information in respect of the Group.

OPEN OFFER

Issue statistics

Basis of the Open Offer	:	One Offer Share for every two existing Shares held by Qualifying Shareholders on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date	:	311,174,000 Shares
Number of authorised Shares as at the Latest Practicable Date	:	2,000,000,000 Shares
Number of Offer Shares	:	155,587,000 Offer Shares
Aggregate nominal value of Offer Shares	:	HK$15,558,700.00
Underwriter	:	Shenyin Wanguo Capital (H.K.) Limited
Subscription Price for Offer Shares	:	HK$0.27 per Offer Share

The Company currently has 19.2 million Options outstanding, all of which were granted pursuant to the Share Option Scheme. It is a condition that the Company shall procure each of the Directors and Option Holders to give a Directors Undertaking and an Option Holders Undertaking respectively pursuant to which they will not exercise any of the right under the Options to convert part or all of the Options into Shares before completion of the Open Offer. Pursuant to the Directors Undertakings, the Directors will also undertake to subscribe for all the Offer Shares each will be entitled under the Open Offer.

Under the Open Offer, on the assumption that no outstanding Option is exercised and no new Shares are issued before the Record Date, 155,587,000 Offer Shares would be allotted, representing 50% of the existing issued share capital of the Company as at the date of the Announcement and approximately 33.33% of the issued share capital of the Company as enlarged by the issue of 155,587,000 Offer Shares. Save for the Options, there are no other outstanding warrants, options, convertible securities or other rights to subscribe for Shares as at the Latest Practicable Date.

Qualifying Shareholders and Prohibited Shareholders

The Company will send the Prospectus Documents to Qualifying Shareholders only. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must not be a Prohibited Shareholder. In order to be registered as a member at the close of business on the Record Date, all transfer of Shares (with the relevant share certificates) must be lodged for registration with the branch share registrar of the Company in Hong Kong, by 4:00 p.m. (Hong Kong time) on 2 February 2009 according to the expected timetable.

The branch share registrar of the Company in Hong Kong is:

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

The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong. The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. The Company will send the Prospectus, but not the Application Form, to the Prohibited Shareholders for their information only. The entitlements of the Prohibited Shareholders under the Open Offer will be taken up by the Underwriter.

No Offer Shares may be offered for subscription or purchase or sold to the public in the Cayman Islands.

Rights of the Overseas or Prohibited Shareholders

Based on the register of members of the Company as at the Latest Practicable Date, there were two Overseas Shareholders, and their addresses as shown in the register of members of the Company were in the British Virgin Island and Macau. The Company has complied with all necessary requirements specified in Rule 13.36(2) of the Listing Rules and has made enquiry with its legal advisers regarding the feasibility of extending the Open Offer to the Overseas Shareholders under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges.

The Company has obtained advice from its legal advisers in the British Virgin Islands and Macau confirming that no local legal or regulatory compliance is required to be made in these jurisdictions in connection with the Open Offer. Accordingly, the Open Offer will be extended to the Overseas Shareholder in the British Virgin Islands and Macau.

Closure of Register of Members

The register of members of the Company was closed from 3 February 2009 to 9 February 2009 (both dates inclusive) according to the expected timetable for the purpose of determining entitlement of Qualifying Shareholders as at the Record Date. No transfer of Shares was registered during this period.

Subscription Price for the Offer Shares

The Subscription Price of HK$0.27 per Offer Share will be payable in full on application. The Subscription Price represents:

(i) a discount of approximately 20.6% to the closing price of HK$0.34 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 24.2% to the average closing price of HK$0.356 per Share as quoted on the Stock Exchange for the five consecutive Trading Days up to and including the Last Trading Day;

(iii) a discount of approximately 14.8% to the theoretical ex-right price of approximately HK$0.317 based on the closing price of HK$0.34 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a discount of approximately 84.4% over the audited consolidated net assets value per Share of approximately HK$1.73 as at the Audited Accounts Date (based on the audited consolidated net assets value of the Group over the number of issued Shares as at the Audited Accounts Date); and

(v) a discount of approximately 6.9% to the closing price of HK$0.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at with reference to the market price of the Shares under the prevailing market conditions and the relatively low liquidity of the Shares and was agreed on an arm's length basis between the Company and the Underwriter. The Directors consider the Subscription Price and the rate of discount to the closing price on the Last Trading Day to be fair and reasonable and in the interests of the Company and the Shareholders as a whole on the basis that the Qualifying Shareholders are offered a chance to elect to subscribe for the Offer Shares at a relatively low price and to maintain their respective pro rata shareholdings in the Company. The Directors also consider that the discount will encourage the Qualifying Shareholders to take up their entitlements, so as to participate in and share the potential growth of the Group.

Basis of allotment of Offer Shares

One Offer Share for every two existing Shares held by a Qualifying Shareholder as at the close of business on the Record Date.

Status of the Offer Shares

When allotted, issued and fully paid, the Offer Shares will rank pari passu in all respects with the then existing Shares in issue and holders of such Offer Shares will be entitled to receive all future dividends and distributions which are declared, made and paid after the date of allotment and issue of the Offer Shares.

Fractions of Offer Shares

Fractional entitlements to the Offer Shares will not be issued but will be aggregated and taken up by the Underwriter. The Company will not allot any fractions of the Offer Shares.

No Applications for Excess Offer Shares

No application for Excess Offer Shares will be made available to any Qualifying Shareholders to apply for any entitlements of the Prohibited Shareholders, any Offer Shares not taken up by Qualifying Shareholders and the abovementioned aggregated fractional entitlements but will be taken up by the Underwriter. The Open Offer is not subject to Shareholders' approval.

No odd lot matching services will be provided by the Company in respect of the Open Offer.

Shareholders with their Shares held by a nominee (or CCASS) should note that the Board will regard the nominee (including CCASS) as a single Shareholder according to the register of members of the Company.

For Shareholders whose Shares are held by their nominee(s) (or CCASS) and who would like to have their names registered on the register of members of the Company, they must have lodged all necessary documents with Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong, by 4:00 p.m. (Hong Kong time) on 2 February 2009 according to the expected timetable.

Certificates and refund cheques for the Offer Shares

Subject to the fulfillment of the conditions of the Open Offer, as set out in the paragraph headed "Conditions of the Open Offer" below, certificates for all fully-paid Offer Shares are expected to be posted by ordinary post on or before 4 March 2009 to those Qualifying Shareholders who have accepted and paid for the Offer Shares, at their own risk. Refund cheques in respect of the Offer Shares if the Open Offer is terminated are expected to be posted by 4 March 2009 by ordinary post to the applicants at their own risk.

Application for Listing

The Company has applied to the Listing Committee for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duties and relevant trading fees and Securities and Futures Commission transaction levy in Hong Kong.

CONDITIONS TO COMPLETION OF THE OPEN OFFER

Completion of the Open Offer is conditional upon, among others, fulfillment of each of the following conditions as set out in the Underwriting Agreement:

1. the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;

2. if applicable, the filing with the Registrar of Companies in Cayman Islands one copy of each of the Prospectus Documents duly signed by either all Directors or one of the Directors for and on behalf of all the Directors (and all other documents required to be attached thereto) on or before the Prospectus Posting Date or otherwise in compliance with the applicable laws and regulations of Cayman Islands;

3. the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;

4. the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings;

5. the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated on or before the Latest Time for Termination; and

6. the performance of all the Crisana Undertaking, Upwise Undertaking, CNI Undertaking, the Directors Undertakings and the Option Holders Undertaking.

The Underwriter may at any time by notice in writing to the Company waive the condition no.5 above. Save and except the said condition no.5, the other conditions are incapable of being waived. If any of the above conditions is not fulfilled or waived by or at the time and/or date specified therefor (or if no time or date is specified, by 4:00 p.m. on 27 February 2009, or such other time as may be agreed between the Underwriter and the Company), or shall become incapable of being fulfilled or waived on or before such time, or the Underwriting Agreement shall be terminated and the Open Offer will not proceed.

Conditions 1 to 3 have been fulfilled by the issuance and despatch of the Prospectus Documents and/or the Prospectus to the Qualifying Shareholders and/or the Prohibited Shareholders.

UNDERWRITING ARRANGEMENT

Any Offer Share not taken up by the Qualifying Shareholders, other than Crisana, Upwise, CNI and the Directors, will be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement.

Date	:	14 January 2009
Issuer	:	the Company
Underwriter	:	Shenyin Wanguo Capital (H.K.) Limited
Number of Underwritten Shares	:	112,925,000 Offer Shares
Commission	:	2.5%

Pursuant to the Underwriting Agreement, Shenyin Wanguo Capital (H.K.) Limited, being the Underwriter, has agreed to subscribe or procure the subscription for all the Underwritten Shares. The aggregate value of such Underwritten Shares amounts to approximately HK$30.5 million at the Subscription Price.

To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owners are Independent Third Parties. The Underwriter has warranted and undertaken to the Company that any sub-underwriter to be appointed by the Underwriter and its ultimate beneficial owners shall be independent to the Company and the Underwriter and their respective associates.

It is one of the conditions of the Underwriting Agreement that, if required, the Underwriter will appoint sub-underwriters for sub-underwriting the Offer Shares, such that none of the Underwriter together with its parties acting in concert (as defined under the Takeovers Code) nor any of the sub-underwriters and their respective parties acting in concert shall trigger a general offer under Rule 26 of the Takeovers Code and the Underwriter shall, and shall cause the sub-underwriters to procure independent placees to take up such number of Offer Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with immediately after the Open Offer.

Each of the Underwriter and any sub-underwriter that may be appointed and their respective parties acting in concert will not hold in aggregate 20% or more of the Shares after completion of the Open Offer.

The Directors understand completion of the Open Offer in accordance with the terms of the Underwriting Agreement will not trigger any general offer obligations under Rule 26 of the Takeovers Code and the public float requirement will be complied with.

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events. If, at any time prior to the Latest Time for Termination (i.e. 27 February 2009 pursuant to the expected timetable), one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, exist, or come into effect:

(1) (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the reasonable opinion of any of the Underwriter, a material omission in the context of the Open Offer; or

(7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

upon the giving of termination notice by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save for any antecedent breaches thereof).

WARNING OF THE RISKS OF DEALING IN SHARES

Shares has been dealt with on an ex-entitlement basis from 30 January 2009 based on the expected timetable.

Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the fulfillment or waiver of all the conditions set out under the section headed "Conditions of the Open Offer". In particular, the Open Offer is subject to the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out under the paragraph headed "Termination of the Underwriting Agreement" above). Accordingly, the Open Offer may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares. If in any doubt, Shareholders and investors should consider obtaining professional advice on this.

To qualify for the Open Offer, a Qualifying Shareholder's name must appear on the register of members of the Company at the close of business on the Record Date, which was 9 February 2009 according to the expected timetable.

IRREVOCABLE UNDERTAKINGS

Pursuant to the Underwriting Agreement, the Company will procure Crisana, Upwise and CNI to give the Crisana Undertaking, the Upwise Undertaking and the CNI Undertaking respectively in favour of the Company and the Underwriter not to dispose of its shareholdings before close of the Open Offer and to subscribe for all the Offer Shares each will be entitled under the Open Offer.

The Company will also procure each of the Directors to give a Directors Undertaking in favour of the Company and the Underwriter (i) to subscribe for all the Offer Shares each will be entitled under the Open Offer; and (ii) not to exercise any of the right under the Options to convert part or all of the Options into Shares before completion of the Open Offer.

The Company will also procure each of the Option Holders to give an Option Holders Undertaking in favour of the Company and the Underwriter not to exercise any of the right under the Options to convert part or all of the Options into Shares before completion of the Open Offer.

As at the Latest Practicable Date, the respective shareholding details of Crisana, Upwise, CNI and the Directors are as follows:

Name	Number of Shares held	Number of Options held
Tse Kam Pang	6,152,000	—
Ma Gary Ming Fai	4,814,000	2,900,000
Yau Chung Hong	400,000	200,000
Donald H. Straszheim	—	1,600,000
Chang Chu Fai Johnson Francis	—	600,000
Crisana	71,450,000	—
Upwise	1,798,000	—
CNI	710,000	—

As at the Latest Practicable Date, the Company has obtained all the Undertakings save for one Option Holders Undertaking and none of the Directors or the Option Holders had exercised any of their right to convert any Options.

Each of Crisana, Upwise, CNI, Ma Gary Ming Fai, Yau Chung Hong and Tse Kam Pang has irrevocably undertaken to subscribe for its or his pro rata entitlement under the Open Offer, being an aggregate of 42,662,000 Offer Shares under the Crisana Undertaking, the Upwise Undertaking, the CNI Undertaking and the Directors Undertaking respectively.

Each of Donald H. Straszheim, Yau Chung Hong, Ma Gary Ming Fai, Chang Chu Fai Johnson Francis and the Option Holders has irrevocably undertaken not to exercise their rights under the Options to convert part or all of the Options into Shares before completion of the Open Offer before close of the Open Offer under their respective Directors Undertaking and Option Holders Undertaking.

As at the Latest Practicable Date, other than the abovementioned undertakings, the Company had not procured any other undertaking and had not received any undertaking provided by any other Shareholders to subscribe for his entitlement under the Open Offer or any arrangement that might have an effect to the Open Offer.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the changes in the shareholding structure of the Company arising from the Open Offer as at the Latest Practicable Date:

Name of Shareholder	As at the Latest Practicable Date		Immediately after completion of the Open Offer assuming all Shareholders take up their respective allotment of the Offer Shares in full *(Note 1)*		Immediately after completion of the Open Offer assuming no Shareholder takes up any of the Underwritten Shares, all Underwritten Shares are taken up by the Underwriter *(Note 1)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Crisana	71,450,000	22.96	107,175,000	22.96	107,175,000	22.96
Tse Kam Pang	6,152,000	1.98	9,228,000	1.98	9,228,000	1.98
Upwise	1,798,000	0.58	2,697,000	0.58	2,697,000	0.58
Ma Gary Ming Fai	4,814,000	1.55	7,221,000	1.55	7,221,000	1.55
CNI	710,000	0.23	1,065,000	0.23	1,065,000	0.23
Yau Chung Hong	400,000	0.13	600,000	0.13	600,000	0.13
Assetbest Limited *(Note 2)*	32,272,000	10.37	48,408,000	10.37	32,272,000	6.91
Underwriter	—	—	—	—	112,925,000	24.19 *(Note 3)*
existing public Shareholders	193,578,000	62.20	290,367,000	62.20	193,578,000	41.47
Total	311,174,000	100.00	466,761,000	100.00	466,761,000	100.00

Note 1: As at the Latest Practicable Date, there were 19.2 million Options outstanding, all of which were granted pursuant to the Share Option Scheme and the Company had procured each of them to execute a Directors Undertaking or an Option Holders Undertaking, pursuant to which each of them would not exercise any of the right under the Options to convert part or all of the Options into Share before completion of the Open Offer.

Note 2: Assetbest Limited, a company which is wholly and beneficially owned by Mr. Huang Wai Jei.

Note 3: The Underwriter will appoint sub-underwriter to underwrite the Underwritten Shares if the Underwritten Shares to be taken up by the Underwriter will exceed 20% so that none of the Underwriter and any sub-underwriter that may be appointed and their respective parties acting in concert (as defined under the Takeovers Code) will hold in aggregate 20% or more of the Shares after completion of the Open Offer.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the design, manufacture and sale of a wide range of home furniture.

For the financial year ended 31 December 2007, the Group recorded an audited net profit of approximately HK$52.3 million and the audited net assets of the Group as at 31 December 2007 was approximately HK$538.3 million.

For the six months ended 30 June 2008, the Group recorded an unaudited net profit of approximately HK$22.8 million and the unaudited net assets of the Group as at 30 June 2008 were approximately HK$553.7 million.

The Board is of the option that furniture market is being affected by the financial tsunami and, as one of the market leaders in the industry, the Group will also irrevocably suffer from that. The management has implemented stringent cost control measures and reminded all management level staff staying alert on the harmful effect caused by the financial tsunami.

So far as the Directors are aware, there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Group is principally engaged in the design, manufacture and sale of a wide range of home furniture.

The net proceeds of the Open Offer (after deduction of expenses of the Open Offer which is estimated to be HK$1.1 million, including legal, auditing fees, underwriter's fees and printing costs, payable by the Company) are expected to amount to approximately HK$40.9 million (HK$0.263 per Offer Share) and will be used for general working capital of the Group.

The Group intends to strengthen its financial position by the Open Offer, which will enable the Company to expand its capital base. The Directors also consider that it is in the interests of the Company and its Shareholders to raise capital to meet the Group's funding requirements by way of the Open Offer, which will allow all Qualifying Shareholders the opportunity to maintain their respective pro rata shareholding interests in the Company.

The Group did not carry out any capital raising activities within the last 24 months prior to the Latest Practicable Date.

ADJUSTMENTS IN RELATION TO THE SHARE OPTION SCHEME

Pursuant to the terms of the Share Option Scheme, the exercise prices and the number of Shares to be issued under the Options will be adjusted in accordance with the Share Option Scheme upon the Open Offer becoming unconditional. Such adjustments will be verified by auditors of the Company and the Company will notify the holders of the Options the adjustments in accordance with the terms of the Share Option Scheme.

PROCEDURE FOR APPLICATION

Application for Offer Shares

The Application Form is enclosed with this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to apply for the number of Offer Shares as shown therein subject to payment in full by the Latest Time for Acceptance . Qualifying Shareholders should note that they may apply for any number of Offer Shares only up to the number set out in the Application Form.

If Qualifying Shareholders wish to apply for all the Offer Shares offered to them as specified in the Application Form or wish to apply for any number less than their entitlements under the Open Offer, they must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the full amount payable in respect of such number of Offer Shares they have applied for with, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. on Wednesday, 25 February 2009. All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or bankers' cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "Royale Furniture Holdings Limited - Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the duly completed and signed Application Form, together with the appropriate remittance, have been lodged with, Tricor Tengis Limited by not later than 4:00 p.m. on Wednesday, 25 February 2009, the entitlements of the respective Qualifying Shareholders under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled.

The Application Form for the use by the person(s) named therein only and is not transferable.

No receipt will be issued in respect of any application monies received.

Fractional entitlements to the Offer Shares will not be issued but will be aggregated and taken up by the Underwriter. The Company will not allot any fractions of Offer Shares.

Any Offer Shares not applied for by the Qualifying Shareholders will be taken up by the Underwriter.

The Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee as a single Shareholder according to the register of members of the Company.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the Appendices to this Prospectus.

Yours faithfully,
For and on behalf of the Board
Royale Furniture Holdings Limited
Chan Wing Kit
Company Secretary

I. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the consolidated results of the Group for the three years ended 31 December 2005, 2006 and 2007, and the consolidated balance sheets as at 31 December 2005, 2006 and 2007 as extracted from the published annual reports of the Company for the three years ended 31 December 2005, 2006 and 2007.

Profit and loss statement

		31 December	
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
REVENUE	615,033	489,143	413,257
Cost of sales	(446,837)	(361,605)	(274,282)
Gross Profit	168,196	127,538	138,975
Other income and gain	54,569	42,145	50,682
Selling and distribution costs	(97,850)	(83,040)	(57,685)
Administrative expenses	(63,244)	(59,089)	(50,606)
Other expenses	(6,927)	(3,690)	(674)
Finance costs	(1,861)	(508)	(453)
Share of profits of associates	1,520	55	207
PROFIT BEFORE TAX	54,403	23,411	80,446
Tax	(2,091)	(307)	(2,254)
PROFIT FOR THE YEAR	52,312	23,104	78,192
Attributable to:			
Equity holders of the parent	50,406	23,104	78,192
Minority interest	1,906	—	—
	52,312	23,104	78,192
DIVIDENDS			
Interim	3,509	—	25,612
Proposed final	7,779	5,848	14,306
	11,288	5,848	39,918

	31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Balance sheet			
NON-CURRENT ASSETS			
Property, plant and equipment	355,670	283,098	198,038
Prepaid land lease payments	14,630	19,224	13,672
Goodwill	111,688	21,454	21,454
Other intangible assets	5,729	6,124	6,678
Interests in associates	31,067	8,321	7,967
Available-for-sale investments	—	5,800	—
Total non-current assets	518,784	344,021	247,809
CURRENT ASSETS			
Inventories	159,984	120,639	99,257
Trade receivables	23,371	16,432	19,175
Prepayments, deposits and other receivables	77,091	53,152	59,262
Cash and cash equivalents	51,447	62,662	119,313
	311,893	252,885	297,007
Non-current assets classified as held for sale	17,583	—	—
Total current assets	329,476	252,885	297,007
CURRENT LIABILITIES			
Trade payables	109,597	83,140	61,762
Other payables and accruals	90,469	61,170	56,457
Interest-bearing bank loan	30,902	638	607
Tax payable	61,254	59,930	59,930
Total current liabilities	292,222	204,878	178,756
NET CURRENT ASSETS	37,254	48,007	118,251
TOTAL ASSETS LESS CURRENT LIABILITIES	556,038	392,028	366,060
NON-CURRENT LIABILITIES			
Interest-bearing bank loan	11,404	11,101	11,731
Deferred tax liabilities	6,363	6,363	6,363
Total non-current liabilities	17,767	17,464	18,094
Net Assets	538,271	374,564	347,966

	31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	31,117	26,011	26,011
Reserves	494,933	342,705	307,649
Proposed final dividend	7,779	5,848	14,306
	533,829	374,564	347,966
Minority interests	4,442	—	—
Total equity	538,271	374,564	347,966

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below are the audited consolidated financial statements of the Group for the year ended 31 December 2007 together with the relevant notes thereto as extracted from the Company's published annual report for the year ended 31 December 2007.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

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

CONSOLIDATED BALANCE SHEET
31 December 2007

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

CONSOLIDATED BALANCE SHEET *(Continued)*

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loan	27	11,404	11,101
Deferred tax liabilities	28	6,363	6,363
Total non-current liabilities		17,767	17,464
Net assets		538,271	374,564
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	29	31,117	26,011
Reserves	31	494,933	342,705
Proposed final dividend	12	7,779	5,848
		533,829	374,564
Minority interests		4,442	—
Total equity		538,271	374,564

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

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

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

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2007

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

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

BALANCE SHEET
31 December 2007

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

Tse Kam Pang
Director

Ma Gary Ming Fai
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

In the opinion of the directors, the parent and the ultimate holding company of the Group is Crisana International Inc., which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

(d) HK(IFRIC) — Int 9 Reassessment of Embedded Derivatives

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

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

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of an associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses when an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-Current assets and disposal groups held for "sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Leasehold land and buildings	5%
Leasehold improvement	33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

Non-current assets and disposal group held for sale

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Licence rights of trademarks

Purchased licence rights of trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain of loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables, include trade receivables, deposits and other receivables and cash and cash equivalents, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets, include available-for-sale investments, are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separated component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised as income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivable together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured (or on a derivative asset that is linked to and must be settled by delivery of such and unquoted equity instrument), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" of "prolonged" requires judgment. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Financial liabilities including trade payable, other payable and accruals, and interest-bearing bank loan are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance cost" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Revenue recognition

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

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

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

- from the rendering of services, when the relevant services are rendered.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits' scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK$1,000 per month, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial model, further details of which are given in note 30. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions *(Continued)*

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the dates that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Discounts or premiums relating to borrowings and ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the periods of the borrowings.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are not Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at exchange rate ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

Impairment of goodwill

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

Write-down of inventories

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

Impairment of trade receivables

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

Impairment of items of property, plant and equipment

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2006	Franchise shops *HK$'000*	Self-operating shops *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to customers	409,421	79,722	—	489,143
Intersegment sales	38,508	—	(38,508)	—
Total	447,929	79,722	(38,508)	489,143
Segment results	32,154	(1,404)	—	30,750
Unallocated gains				3,324
Unallocated expenses				(3,690)
Finance costs				(508)
Share of profits of an associate				55
Equity-settled share option expense				(6,520)
Profit before tax				23,411
Tax				(307)
Profit for the year				23,104

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

Year ended 31 December 2006	Franchise	Self-operating shops	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Segment assets	465,114	52,214	517,328
Interest in an associate			8,321
Unallocated assets			71,257
Total assets			596,906
Segment liabilities	134,506	4,076	138,582
Unallocated liabilities			83,760
Total liabilities			222,342
Other segment information:			
Depreciation	22,844	3,614	26,458
Goodwill	—	21,454	21,454
Capital expenditure	110,433	3,299	113,732

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

6. PROFIT BEFORE TAX

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

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

(a) Independent non-executive directors

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

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

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

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Pension scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006						
Executive directors:						
Mr. Tse Kam Pang	300	3,000	500	—	—	3,800
Ms. Lam Toi	300	2,592	217	—	—	3,109
Mr. Ma Ming Fai,Gary	300	2,160	360	—	—	2,820
	900	7,752	1,077	—	—	9,729

During the year, discretionary bonuses paid or receivable by the executive directors amounted to HK$861,000 (2006: HK$1,077,000). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2006: Nil).

NOTES TO FINANCIAL STATEMENTS *(Continued)*

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

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

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

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

During the year, share options were granted to one director and one non-director, highest paid employees in their service to the group, further details of which are included in the disclosures in note 30. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors, highest paid employees' remuneration disclosures. Discretionary bonuses were paid to or received by the four of the five highest paid individuals of the Group during the year, amounted to HK$931,950 (2006: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: Nil).

NOTES TO FINANCIAL STATEMENTS *(Continued)*

10. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

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

Pursuant to the Macao SAR's Offshore Laws, Sino Full Macao Commercial Offshore Limited ("Sino Full"), a Macao Offshore Company, is exempted from all the taxes in Macao, including income tax, industrial tax and stamp duties.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

10. TAX *(Continued)*

According to the Income Tax Law of the People's Republic of China ("PRC") on Enterprises with Foreign Investment and Foreign Enterprise, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), Guangzhou Full Fat Furniture Limited ("Fufa"), Guangzhou Yufa Furniture Company Limited ("Yufa") and Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply (Dongguan) Furniture Limited ("Simply"), wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a preferential corporate income tax rate of 24%. These subsidiaries are also exempt from PRC corporate income tax for the first two profitable years of their operations and are eligible to a 50% reduction from PRC corporate income tax for the following three years.

The current year income tax rate of Wanlibao is 12% as it is in its fifth profit making year. Tax rate of Simply and Fufa was 12% as they were in its third profit making year. No corporate income taxes were made by management for Yufa as it was in its first profitable year. Fuli is in the pre-operating period.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a loss of HK$4,061,000 (2006: a profit of HK$11,164,000), which has been dealt with in the financial statements of the Company (note 31(b)).

12. DIVIDENDS

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

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2007							
At 31 December 2006 and at 1 January 2007:							
Cost or valuation	182,049	10,972	96,266	10,887	8,851	46,283	355,308
Accumulated depreciation	(24,887)	(3,785)	(32,384)	(5,565)	(5,589)	—	(72,210)
Net carrying amount	157,162	7,187	63,882	5,322	3,262	46,283	283,098
At 1 January 2007, net of accumulated depreciation	157,162	7,187	63,882	5,322	3,262	46,283	283,098
Additions	18,374	7,449	6,439	2,951	1,708	58,029	94,950
Acquisition of a subsidiary/ businesses *(note 32)*	175	618	—	116	—	1,752	2,661
Disposals	(1,897)	(892)	(636)	(802)	(1,290)	—	(5,517)
Disposal of a subsidiary *(note 33)*	(167)	—	—	—	—	(1,752)	(1,919)
Depreciation provided during the year	(2,205)	(8,334)	(10,396)	(2,390)	(1,646)	—	(24,971)
Transfers	85,766	—	—	—	166	(85,932)	—
Transfer to non-current assets held for sales *(note 25)*	(11,243)	—	—	—	—	—	(11,243)
Exchange realignment	11,191	1,088	4,450	121	122	1,639	18,611
At 31 December 2007, net of accumulated depreciation	257,156	7,116	63,739	5,318	2,322	20,019	355,670
At 31 December 2007:							
Cost or valuation	286,593	20,667	109,143	13,553	9,979	20,019	459,954
Accumulated depreciation	(29,437)	(13,551)	(45,404)	(8,235)	(7,657)	—	(104,284)
Net carrying amount	257,156	7,116	63,739	5,318	2,322	20,019	355,670
Analysis of cost or valuation:							
At cost	—	7,116	63,739	5,318	2,322	20,019	98,514
At 31 December 2007 valuation	257,156	—	—	—	—	—	257,156
	257,156	7,116	63,739	5,318	2,322	20,019	355,670

NOTES TO FINANCIAL STATEMENTS *(Continued)*

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost or valuation	133,434	8,461	75,401	8,825	8,069	14,080	248,270
Accumulated depreciation	(18,563)	(874)	(23,611)	(3,827)	(3,357)	—	(50,232)
Net carrying amount	114,871	7,587	51,790	4,998	4,712	14,080	198,038
At 1 January 2006, net of accumulated depreciation	114,871	7,587	51,790	4,998	4,712	14,080	198,038
Additions	37,133	2,670	22,363	2,154	1,497	47,915	113,732
Disposals	(320)	(200)	(438)	(27)	(280)	—	(1,265)
Depreciation provided during the year	(6,715)	(3,154)	(11,858)	(1,939)	(2,792)	—	(26,458)
Transfers	16,238	—	—	—	—	(16,238)	—
Reclassified to prepaid and lease payments	(6,203)	—	—	—	—	—	(6,203)
Exchange realignment	2,158	284	2,025	136	125	526	5,254
At 31 December 2006, net of accumulated depreciation	157,162	7,187	63,882	5,322	3,262	46,283	283,098
At 31 December 2006:							
Cost or valuation	182,049	10,972	96,266	10,887	8,851	46,283	355,308
Accumulated depreciation	(24,887)	(3,785)	(32,384)	(5,565)	(5,589)	—	(72,210)
Net carrying amount	157,162	7,187	63,882	5,322	3,262	46,283	283,098
Analysis of cost or valuation:							
At cost	—	7,187	63,882	5,322	3,262	46,283	125,936
At 31 December 2006 valuation	157,162	—	—	—	—	—	157,162
	157,162	7,187	63,882	5,322	3,262	46,283	283,098

The leasehold land and buildings of the Group are located in Mainland China, and have a net book value of HK$257,156,000 as at 31 December 2007. The leasehold land is held under a long term lease.

Leasehold land was reclassified to prepaid land lease payments at its carrying value in 2006. Leasehold land and buildings at 31 December 2007 represented buildings which were revalued at 31 December 2006, by LCH Asia-Pacific Surveyors Limited, independent professionally qualified valuers, based on their existing use. The directors are of the opinion that the carrying amount of the leasehold land and buildings as at 31 December 2007 is a close approximation to the fair value.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

15. PREPAID LAND LEASE PAYMENTS

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

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

16. OTHER INTANGIBLE ASSETS

Group

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

16. OTHER INTANGIBLE ASSETS *(Continued)*

Group

	Licence rights of trademarks *HK$'000*
31 December 2006:	
At 1 January 2006:	
Cost	7,998
Accumulated amortisation	(1,320)
Net carrying amount	6,678
Cost at 1 January 2006, net of accumulated amortisation	6,678
Addition during the year	5
Amortisation provided during the year	(809)
Exchange realignment	250
At 31 December 2006	6,124
At 31 December 2006 and at 1 January 2007:	
Cost	8,003
Accumulated amortisation	(1,879)
Net carrying amount	6,124

17. GOODWILL

Group

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

17. GOODWILL *(Continued)*

Impairment testing of goodwill

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

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

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

The recoverable amount of goodwill has been determined based on value in use calculation using cash flow projections according to financial budgets approved by management covering a five-year period. The discount rate 11.18% applied to the cash flow projects was determined after considering lending rates offered to enterprises by large financial institutions in mainland China. The annual growth rate is in line with the average growth rate of the industry.

18. INTERESTS IN SUBSIDIARIES

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

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2007 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1,000	100	—	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary US$10,000	—	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary US$10,000	—	100	Investment holding and trading of furniture
Wanlibao	PRC *(Note a)*	PRC	Paid-up registered US$5,700,000	—	100	Manufacture and trading of furniture
Fufa	PRC *(Note b)*	PRC	Paid-up registered US$20,000,000	—	100	Manufacture and trading of furniture
Simply	PRC *(Note c)*	PRC	Paid-up registered US$18,000,000	—	100	Manufacture and trading of furniture
Yufa	PRC *(Note d)*	PRC	Paid-up registered US$10,000,000	—	100	Manufacture and trading of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macao	Ordinary US$1	—	100	Trading of furniture
King Apex International Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Lead Concept Development Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Smart Excel International Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Umbrella Group Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Coralview Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant

NOTES TO FINANCIAL STATEMENTS *(Continued)*

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ridgecrest Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Moffat Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Knollwood Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Sino Full*	Macao	Macao	Ordinary MOP100,000	—	100	Dormant
Tomford Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Fuli	PRC *(Note e)*	PRC	Registered capital HK$25,000,000	—	100	Dormant
Censtar International Limited*	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Chitaly Furniture Glabal Limited	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Spring Valley Properties Limited*	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Competent Holdings Limited*	BVI	Hong Kong	Ordinary US$1	—	100	Dormant
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US$1	—	100	Investment activities
Royal Furniture Anhui Limited	PRC *(Note f)*	PRC	Registered capital HK$1,444,234	—	100	Dormant
Signature Industries Limited	BVI	PRC	Ordinary HK$31,000,000	—	71	Manufacture and sales of sofa

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

a. Wanlibao is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 15 June 1999. The tenure of the articles of association and the terms of operations of Wanlibao are 30 years from 9 July 1999.

b. Fufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 13 March 2003. The tenure of the articles of association and the terms of operations of Fufa are 20 years from 22 April 2003.

c. Simply is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 28 March 2004. The tenure of the articles of association and the terms of operations of Simply are 12 years from 17 May 2004.

d. Yufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association and the terms of operations of Yufa are 20 years from 14 September 2005.

e. Fuli is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association and the terms of operations of Fuli are 20 years from 10 December 2005.

f. Royal Furniture Anhui Limited is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 5 June 2006. The tenure of the articles of association and the terms of operations of Royal Furniture Anhui Limited are from 5 June 2006 to 28 November 2025.

19. INTEREST IN ASSOCIATES

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

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values. The Group's trade receivable from an associate is disclosed in note 22 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

19. INTEREST IN ASSOCIATES *(Continued)*

Particulars of the associate are as follows:

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

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

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

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

20. AVAILABLE-FOR-SALE INVESTMENTS

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

21. INVENTORIES

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

22. TRADE RECEIVABLES

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

22. TRADE RECEIVABLES *(Continued)*

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

Group

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

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

Company

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

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

24. CASH AND CASH EQUIVALENTS

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

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

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

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

26. TRADE PAYABLES

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

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

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

27. INTEREST-BEARING BANK LOANS

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

28. DEFERRED TAX

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

Deferred tax liabilities

Group

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

28. DEFERRED TAX *(Continued)*

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

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

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

A summary of the transactions in the Company's issued share capital is as follows:

		Number of shares in issue	Issued share capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2007		260,114,000	26,011	102,346	128,357
Issue of shares	*(i), (ii)*	42,860,000	4,286	63,786	68,072
Share options exercised	*(iii)*	8,200,000	820	11,455	12,275
At 1 January 2008 and 31 December 2007		311,174,000	31,117	177,587	208,704

NOTES TO FINANCIAL STATEMENTS *(Continued)*

29. SHARE CAPITAL *(Continued)*

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

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

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

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

30. SHARE OPTION SCHEME

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

30. SHARE OPTION SCHEME *(Continued)*

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

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

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the Scheme is completed, signed and returned by the grantee with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

30. SHARE OPTION SCHEME *(Continued)*

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

30. SHARE OPTION SCHEME *(Continued)*

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

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

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year was HK$2,543,445, of which the Group recognised a share option expense of HK$2,543,445 during the year end 31 December 2007.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2007:

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

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

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

At the balance sheet date, the Company had 19,200,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 19,200,000 additional ordinary shares of the Company and additional share capital of HK$1,920,000 and share premium of HK$31,202,000 (before issue expenses).

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31. RESERVES

(a) Group

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

(b) Company

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

Notes:

(a) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation on 15 December 2001 over the nominal value of the Company's shares issued in exchange therefore.

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

32. BUSINESS COMBINATION

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

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

Signature

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

32. BUSINESS COMBINATION *(Continued)*

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

Zhengzhou

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

32. BUSINESS COMBINATION *(Continued)*

Hangzhou

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

33. DISPOSAL OF A SUBSIDIARY

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

34. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

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

35. COMMITMENTS

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

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

36. CONTINGENT LIABILITIES

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

37. RELATED PARTY TRANSACTIONS

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

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

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

(b) Outstanding balance with an associate:

Details of the Group's loans to its associate and trade balance with its associate as at the balance sheet date are included in note 19 and note 22 to the financial statements.

(c) Compensation of key management personnel of the Group

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Interest rate risk

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

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

(ii) Foreign currency risk

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

(iii) Credit risk

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

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

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

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

(iv) Liquidity risk

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

(iv) Liquidity risk *(Continued)*

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

Group

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

Group

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

(iv) Liquidity risk *(Continued)*

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

Company

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

Company

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

(v) Capital management

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

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

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

(v) Capital management *(Continued)*

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

Group

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

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

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

III. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following information has been extracted from the published interim report of the Company for the six months ended 30 June 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	**2008** *HK$'000* (unaudited)	**2007** *HK$'000* (unaudited)
REVENUE	*4*	407,528	237,809
Cost of sales		(268,858)	(168,177)
Gross profit		138,670	69,632
Other income and gains	*4*	18,442	21,355
Selling and distribution costs		(99,903)	(41,884)
Administrative expenses		(32,994)	(27,658)
Other expenses		—	(988)
Finance costs	*6*	(2,109)	(341)
Share of profits of associates		1,811	(57)
PROFIT BEFORE TAX	*5*	23,917	20,059
Tax	*7*	(1,070)	(189)
PROFIT FOR THE PERIOD		22,847	19,870
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		21,587	18,676
MINORITY INTEREST		1,260	1,194
		22,847	19,870
DIVIDENDS	*8*		
Final		7,779	5,848
Proposed interim		3,734	3,509
		11,513	9,357
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD	*9*		
Basic		6.9 cents	6.4 cents
Diluted		6.6 cents	6.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 HK$'000 (Unaudited)	31 December 2007 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		361,140	355,670
Prepaid land lease payments		36,168	14,630
Goodwill		111,688	111,688
Other intangible assets		5,334	5,729
Interest in associates		32,910	31,067
Total non-current assets		547,240	518,784
CURRENT ASSETS			
Inventories		131,309	159,984
Trade receivables	*10*	87,895	23,371
Prepayments, deposits and other receivables		88,818	77,091
Cash and cash equivalents		34,344	51,447
Non-current assets classified as held for sale		—	17,583
Total current assets		342,366	329,476
CURRENT LIABILITIES			
Trade payables	*11*	107,543	109,597
Other payables and accruals		90,002	90,469
Interest-bearing bank loan		58,677	30,902
Tax payable		62,324	61,254
Total current liabilities		318,546	292,222
NET CURRENT ASSETS		23,820	37,254
TOTAL ASSETS LESS CURRENT LIABILITIES		571,060	556,038

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loan	11,035	11,404
Deferred tax liabilities	6,363	6,363
Total non-current liabilities	17,398	17,767
Net assets	553,662	538,271
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Issued capital	31,117	31,117
Reserves	513,109	494,933
Proposed final dividend	—	7,779
Proposed interim dividend	3,734	—
	547,960	533,829
Minority interests	5,702	4,442
Total equity	553,662	538,271

NOTES TO FINANCIAL STATEMENTS

30 June 2008

1. BASIS OF PREPARATION

This condensed consolidated interim financial statements for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34, 'Interim financial reporting' and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007. The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the annual financial statements for the year ended 31 December 2007.

2. PRINCIPAL ACCOUNTING POLICIES

The Group has adopted the following standards that have been issued and effective for the periods beginning on or after 1 January 2008. The adoption of such standards did not have material effect on these financial statements.

HK (IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK (IFRIC) — Int 12	Service Concession Arrangements
HK (IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subjected to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) Wholesale of home furniture and

(b) Retail of home furniture

NOTES TO FINANCIAL STATEMENTS *(Continued)*

3. SEGMENT INFORMATION *(Continued)*

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

(i) Business segment

The following table present revenue, profit and expenditure information for the Group's business segment for the period ended 30 June 2008 and 2007.

Period ended 30 June 2008	Franchise	Retailing	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:				
Sales to customers	**348,580**	**58,948**	**—**	**407,528**
Intersegment sales	**26,163**	**—**	**(26,163)**	**—**
	374,743	**58,948**	**(26,163)**	**407,528**
Segment results	**25,853**	**3,261**	**—**	**29,114**
Unallocated gains				**521**
Unallocated expenses				**(5,420)**
Finance costs				**(2,109)**
Share of profits of associates				**1,811**
Profit before tax				**23,917**
Tax				**(1,070)**
Profit for the period				**22,847**

NOTES TO FINANCIAL STATEMENTS *(Continued)*

3. SEGMENT INFORMATION *(Continued)*

(i) Business segment *(Continued)*

Period ended 30 June 2007	Franchise	Retail	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:				
Sales to customers	195,996	41,813	—	237,809
Intersegment sales	18,756	—	(18,756)	—
	214,752	41,813	(18,756)	237,809
Segment results	26,576	608	—	27,184
Unallocated gains				230
Unallocated expenses				(6,011)
Finance costs				(307)
Share of losses of an associate				(57)
Equity-settled share option arrangement				(980)
Profit before tax				20,059
Tax				(189)
Profit for the period				19,870

(ii) Geographical segment

The following table present revenue, for the Group's geographical segment for the six months ended 30 June 2008 and 2007.

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Segment revenue		
Sales to the PRC	384,756	222,830
Sales to elsewhere in Asia	3,567	1,442
Sales to Europe	4,159	7,261
Sales to Middle East	15,046	6,276
	407,528	237,809

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue	407,528	237,809
Other income and gains		
Bank interest income	147	138
Accessories income	17,774	20,987
Gain on disposal of equity investments at fair value through profit or loss	—	230
Others	521	—
	18,442	21,355
	425,970	259,164

5. PROFIT BEFORE TAX

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

	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of goods sold	268,858	168,177
Depreciation	15,268	13,020
Amortisation of licence rights of trademarks	338	419
Interest income	(147)	(138)
Accessories income	(17,774)	(20,987)
Gain on disposal of equity investments at fair value through profit or loss	—	(230)

NOTES TO FINANCIAL STATEMENTS *(Continued)*

6. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loan	2,109	341

7. TAX

Hong Kong profits tax has not been provided at the rate of 17.5% (2007: 17.5%) as the Group did not generate any assessable profits in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current — Hong Kong profits tax	—	—
Current — Macao profits tax	—	—
Current — PRC corporate income tax	1,070	189
Total tax charge for the period	1,070	189

On 16 March 2007, the National Peoples' Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will become effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their transitional provisions. The Company will further evaluate the impact of the New CIT Law on its operating results and financial positions of future periods as more detailed requirements are issued.

8. DIVIDENDS

A dividend in respect of the six months ended 30 June 2008 of HK1.2 cents (2007: HK1.2 cents) per share, amounting to a total dividend of approximately HK$3,734,000 was proposed by the Board on 16 September 2008. This condensed consolidated financial statements has not reflected this dividend payable.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

9. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profits from ordinary activities attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

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

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

	2008	**2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation:	21,587	18,676

	Number of shares	
	2008	**2007**
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	311,174,000	291,489,556
Effect of dilution-weighted average number of ordinary shares:		
Share options	16,400,000	20,075,000
	327,574,000	311,564,556

NOTES TO FINANCIAL STATEMENTS *(Continued)*

10. TRADE RECEIVABLES

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

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

	30 June 2008	**31 December 2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	9,918	10,246
31 days to 90 days	75,618	10,922
91 days to 180 days	2,041	2,011
Over 180 days	318	192
	87,895	23,371

11. TRADE PAYABLES

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

	30 June 2008	**31 December 2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	57,120	58,490
31 days to 90 days	48,310	49,486
91 days to 180 days	1,729	1,324
181 days to 360 days	178	39
Over 360 days	206	258
	107,543	109,597

IV. STATEMENT OF INDEBTEDNESS

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Indebtedness

Borrowings

The table below sets forth our borrowings as of the dates indicated.

	Effective interest rate %	maturity	As of December 31 2005	2006	2007	As of June 30 2008
			HK$ in thousands			
Current						
Bank loans — secured [(1)]	Hong Kong dollars prime rate — 2.6	2008	607	638	652	343
Bank loans — unsecured [(2)]					30,250	58,334
Non-current						
Bank loans — secured [(1)]	Hong Kong dollars prime rate — 2.6	2009-2022	11,731	11,101	11,404	11,035
Total			12,338	11,739	42,306	69,712

(1) Bank loans as at 31 December 2005, 2006 and 2007 and 30 June 2008 were secured by mortgages over the Group's office building situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK$33,583,000, HK$31,807,784 and HK$30,032,465 and HK$29,144,806 respectively.

(2) The unsecured bank loans are repayable within one year and are denominated in Hong Kong dollar and Renminbi. The carrying amount approximates to the fair value.

Our Directors confirm that, during the year ended 31 December 2008, there was no delay or default repayment of bank borrowings by our Group.

As of 31 December 2008, for the purpose of this statement of indebtedness of our Group prior to the printing of this prospectus, we had outstanding bank loans of HK$39.3 million (which represented HK$11.3 million secured loan that the collateral was the Group's office building situated in Hong Kong and HK$28.0 million short-term unsecured loans denominated in Hong Kong dollars with an interest rate range of 1% per annum over 1/2/3 month(s) Hong Kong Interbank Offered Rate. Such bank loans of HK$8 million and HK$20 million are expected to be matured in January 2009 and February 2009 respectively and such bank loans of HK$8 million has sequently been rolled over for another two months to March 2009. As of 31 December 2008, the total amount of the collateral given for the utilized borrowing of the Group is HK$28.3 million. For the purpose of this statement of indebtedness of our Group, amounts in foreign currencies have been translated into Hong Kong dollars at the applicable rate of exchange as of the balance sheet dates.

Capital commitments

As of 31 December 2008, the Group had the following capital commitments in respect of property, plant and equipment and the construction of land and building as follows:

	As at 31 December 2008
	HK$'000
Contracted for, but not provided for:	
The construction of land and building	8,671
The purchase of property, plant and equipment	Nil
	8,671

Contingent Liabilities

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have entered onto any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our combined financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interests in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Except for trade payables incurred in the ordinary course of business and intra-group liabilities, we did not have any material outstanding loan capital issued or agreed to be issued, bank overdrafts, or other similar indebtedness or any liabilities under acceptances (other than trade bills incurred in the ordinary course of business) or acceptance credits or any guarantees or other material contingent liabilities outstanding as of 31 December 2008.

Except as disclosed in this prospectus, the Directors have confirmed that there has not been any material change in the contingent liabilities of our Company since 30 June 2008.

Disclaimer

Except as disclosed above and other than intra-group liabilities, which have been disregarded for these purpose, as at 31 December 2008 we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2008.

V. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board is aware of the fact that due to the current adverse macro-economic conditions and substantial downturn of the global financial markets, the business operations of the Group have been adversely affected. Further, the goodwill relating to certain businesses acquired by the Group is likely to be subject to impairment losses for the year ended 31 December 2008 as compared with the corresponding period in 2007. For these reasons, the Company's profits for the year ended 31 December 2008 is likely to be adversely affected as set out in the Company's announcement dated 23 January 2009. A1B R
A1B R

The above is only based on preliminary assessment by the Board in accordance with the unaudited management accounts of the Group. The actual results of the Group for the year ended 31 December 2008 have not been finalised and are subject to confirmation with the auditors of the Company. Details of the Group's performance will be disclosed in the annual results announcement of the Group for the year ended 31 December 2008 as soon as practicable.

Save for the above, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest audited financial statements of the Group were made up.

VI. WORKING CAPITAL

The Directors are of the opinion that after taking into account the present internal financial resources of the Group, the currently available banking facilities and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this Prospectus. A1B R

I. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had been completed on 30 June 2008.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Open Offer been completed as at 30 June 2008 or at any future date.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 June 2008 and adjusted to reflect the effect of the Open Offer:

	Unaudited consolidated net tangible assets of the equity holders of the Company as at 30 June 2008	**Estimated net proceeds from Open Offer**	**Unaudited pro forma adjusted consolidated net tangible assets of the equity holders of the Company**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	Note 1	*Note 2*		*Note 3*
Based on 155,587,000 Offer Shares at subscription price of HK$0.27 per Offer Share	430,938	40,919	471,857	1.01

Notes:

1. The net tangible assets attributable to the equity holders of the Company as at 30 June 2008.

	HK$'000
Unaudited net assets of the Group set out in Appendix I	553,662
Less:	
Intangible assets	(5,334)
Goodwill	(111,688)
Minority interest	(5,702)
Net tangible assets attributable to the equity holders of the Company	430,938

2. The estimated net proceeds from the Open Offer are based on the Subscription Price of HK$0.27 per share after deduction of expenses.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that a total of 466,761,000 Shares are expected to be issued after the Open Offer which comprise 311,174,000 Shares in issue as the latest Practicable Date and the 155,587,000 Offer Shares to be issued pursuant to the Open Offer.

II. REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

ERNST & YOUNG

18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 February 2009

The Directors

Royale Furniture Holdings Limited

Shenyin Wanguo Capital (H.K.) Limited

Dear Sirs,

We report on the unaudited pro forma adjusted net tangible assets per share (the "Unaudited Pro Forma Financial Information") of Royale Furniture Holdings Limited (the "Company") together with its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix II to the prospectus dated 11 February 2009 (the "Prospectus"), in connection with the Open Offer of 155,587,000 shares of HK$0.27 each of the Company, which has been prepared by the directors of the Company solely for illustrative purposes, to provide information about how the Open Offer of the Company might have affected the financial information of the Group presented therein.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It is our responsibility to form an opinion as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversignt Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumption of the directors of the Company set out in section (1) of Appendix II to the Prospectus, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2008 or any future dates; or
- the estimated diluted earnings per share of the Group for the year ending 31 December 2008 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Open Offer was as follows:

Authorised:		*HK$*
2,000,000,000	Shares	200,000,000
Issued and fully paid or credited as fully paid:		
311,174,000	Shares in issue as at the Latest Practicable Date	31,117,400

All of the Shares in issue and the Offer Shares to be issued rank pari passu in all respects with each other, including in particular as to dividends, voting rights and capital.

As at the Latest Practicable Date, the Company had 19.2 million outstanding and vested Share Options entitling holders thereof to subscribe for 19.2 million Shares. Save as disclosed above, the Company does not have any other outstanding derivatives, options, warrants and conversion rights or similar rights or securities in issue which are convertible or exchangeable into Shares or Offer Shares.

The Shares in issue are listed on Main Board of the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

There is no arrangement under which future dividends are waived or agreed to be waived.

There is no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally or unconditionally to be issued or granted.

3. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Head Office and Principal Place of Business in Hong Kong	Room 204, 2/F Wing On Plaza 62 Mody Road Tsimshatsui East Kowloon
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Underwriter	Shenyin Wanguo Capital (H.K.) Limited
Auditor and Reporting Accountant	Ernst & Young Certified Public Accountants 18/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Legal Advisers	*As to Hong Kong Law* DLA Piper Hong Kong 40th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
	As to Cayman Islands Law Conyers Dill & Pearman 2901, One Exchange Square, 8 Connaught Place, Central Hong Kong
Principal Bankers	Hang Seng Bank Limited 83 Des Voeux Road Central, Hong Kong

Hong Kong Branch Share Registrar and Transferee Office	Tricor Tengis Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorised Representatives	Tse Kam Pang; and Chan Wing Kit Room 204, 2/F Wing On Plaza 62 Mody Road Tsimshatsui East Kowloon

4. DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. TSE Kam Pang, aged 54, is the chairman of the Company. He founded the Group in 1997 and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Prior to the founding of the Group, Mr. Tse previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. Mr. Tse has over 19 years of experience in the international trade and China trade business. Mr. Tse is also a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. MA Gary Ming Fai, aged 45, is the Chief Executive Officer of the Company. He is the founder or early investor in a number of technology projects both in the PRC and Hong Kong, a member of the Institute of Chartered Accountants of Ontario in Canada and has worked for several years with an international accounting firm. Mr. Ma received his bachelor of commerce degree from the University of Calgary, Canada in 1985. Mr. Ma is presently the Executive President of Guangdong Furniture Chamber of Commerce and a committee member of International Furniture Association. Mr. Ma joined the Group in 2002.

Mr. LAM Toi, aged 46, is the co-founder of the Group. Mr. Lam is mainly responsible for product research and development of the Group. Before founding the Group in 1997, Mr. Lam has over 21 years of experience in China trade and furniture business. Mr. Lam is presently The association honourary chairman of the Furniture and Lighting All-China Federation of Industry and Commerce.

Independent non-executive Directors

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

Mr. Chang, aged 54, was appointed an Independent Non-Executive Director of the Company on 1 July 2005. Mr. Chang is currently the deputy chairman and an independent non-executive director of Quality HealthCare Asia Limited; and an independent non-executive director of Tian An China Investments Company Limited and APAC Resources Limited. He was previously the chairman and an executive director of Trasy Gold Ex Limited and an executive director of Golden 21 Investment Holdings Limited (now known as China Financial Leasing Group Limited). Mr. Chang is currently the Managing Director of Ceres Consultancy Limited and a registered person under the Securities and Futures Ordinance. He was the managing director of Ceres Capital Limited from 2000 to July 2008. He has over 31 years of experience in banking, corporate finance, investment and management. Mr. Chang holds a Bachelor's Degree in Commerce from Concordia University in Montreal, Canada since 1976 and a Master's Degree in Business Administration from York University in Toronto, Canada since 1977.

Mr. Yau Chung Hong, age 39, is an Executive Director of Sino Katalytics Investment Corporation (stock code 2324) and an Independent Non-Executive Director of Daqing Petroleum and Chemical Group Limited (stock code 362). Mr. Yau obtained a bachelor degree in Accountancy from the Hong Kong Polytechnic University in 1993. He is an associated member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Yau has extensive experience and knowledge in accounting and financial management. He joined the Group in 2005.

SENIOR MANAGEMENT

Mr. CHAN Wing Kit, aged 37, is the Chief Financial Controller of the Group, qualified accountant and Company Secretary of the Company. He is responsible for the Group's financial management and company secretarial matters. He holds a bachelor of commerce degree from Monash University. Prior to joining the Group in October 2001, he worked as an auditor with an international accounting firm and has several years of experience in auditing, accounting and financial work. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia.

Mr. ZENG Le Jin, aged 37, is the manager of the internal audit department of the Group. He joined the Group in 1999. He is responsible for the internal audit and overall system assurance of the Group. He has over 10 years of experience in enterprise management. He holds a bachelor degree of metropolitan economy and management majoring in statistic from Guangdong Business College.

Mr. WU Yuan Cheng, aged 35, is the manager of the general administration department and joined the Group in 1999. He is responsible for general administration, personnel affair and backup services. He graduated from Southwest Agricultural University majoring in accounting and auditing. He has several years of experience in corporate administration.

The business addresses of the Directors and the senior management are as follows:

Mr. TSE Kam Pang	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. MA Gary Ming Fai	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. LAM Toi	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Dr. Donald H. Straszheim	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. Chang Chu Fai J. Francis	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. Yau Chung Hong	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. CHAN Wing Kit	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. ZENG Le Jin	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon, Hong Kong
Mr. WU Yuan Cheng	Room 204, 2/F, Wing On Plaza, 62 Mody Road, TST East, Kowloon Hong Kong

5. DISCLOSURE OF INTERESTS

(a) Directors' interests in Shares and Share Options

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long positions in Shares

Name of Directors	Long position/ Short position	Number of shares	Number of share option [1]	Aggregate percentage of interest as at the Latest Practicable Date
Tse Kam Pang	Long position	77,602,000[2]	—	24.94%
Ma Gary Ming Fai	Long position	9,512,000[3]	2,900,000	3.06%
Donald H. Straszheim	Long position	1,600,000	1,600,000	0.51%
Yau Chung Hong	Long position	1,310,000[4]	200,000	0.42%
Chang Chu Fai Johnson Francis	Long position	600,000	600,000	0.19%

Notes:

1. The number of Options refers to the number of underlying Shares covered by the Options.

2. Of these 77,602,000 Shares, 6,152,000 Shares were held by Mr. Tse Kam Pang personally and 71,450,000 Shares were held by Crisana, a company which is wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the 71,450,000 shares held by Crisana.

3. Of these 9,512,000 Shares, 4,814,000 Shares were held by Mr. Ma Gary Ming Fai personally, 2,900,000 Option were granted to Mr. Ma Gary Ming Fai personally and 1,798,000 Shares were held by Upwise, a company which is wholly and beneficially owned by Mr. Ma Gary Ming Fai, who is deemed to be interested in the 1,798,000 shares held by Upwise.

4. Of these 1,310,000 Shares, 400,000 Shares were held by Mr. Yau Chung Hong personally, 200,000 Option were granted to Mr. Yau Chung Hong personally and 710,000 Shares were held by CNI, a company which is wholly and beneficially owned by Mr. Yau Chung Hong, which is deemed to be interested in the 710,000 Shares held by CNI.

(ii) Long positions in underlying Shares pursuant to Options granted by the Company

As at the Latest Practicable Date, the numbers of outstanding Share Options of the Company with details were set out as below:

	Number of share options									Price of the Shares***		
Name of category of participant	At the beginning of the year	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	At the end of the year	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** *HK$ per share*	At grant date of options *HK$ per share*	Immediately before the exercises date *HK$ per share*	At exercise date of options *HK$ per share*
Directors												
Donald H. Straszheim	800,000	–	–	–	–	800,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	–	–
		800,000	–	–	–	800,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33		
Yau Chung Hong	200,000	–	–	–	–	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45	–	–
		400,000	(400,000)	–	–	–	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33	1.76	1.77
Chang Chu Fai, Johnson Frnacis	200,000	–	–	–	–	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35	–	–
		400,000	–	–	–	400,000	2/5/2007	3/5/2007 to 2/5/2017	.35	1.33		
Ma Gary Ming Fai	–	2,900,000	–	–	–	2,900,000	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33		
Others												
Members of senior management and other employees of the Group	–	4,300,000	–	–	–	4.,300,000	9/7/2007	10/7/2007 to 9/7/2017	1.516	1.48	–	–
	100,000	–	–	–	–	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	–	–
	1,500,000	–	–	–	–	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675	–	–
	15,800,000	–	(7,800,000)	–	–	8,000,000	15/11/2006	16/11/2006 to 15/11/2016	1.104	1.08	2.10	1.82
	17,400,000	4,300,000	(7,800,000)	–	–	13,900,000						
In aggregate	18,600,000	–	–	–	–	18,600,000						
	–	8,800,000	–	–	–	8,800,000						
	–	–	(8,200,000)	–	–	(8,200,000)						
	18,600,000	8,800,000	(8,200,000)	–	–	19,200,000						

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

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

(b) Substantial shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company), who had interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in ten per cent or more of the nominal value of any class of Share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities, together with particulars of any options in respect of such capital were as follows:

Long positions of substantial shareholders in the Shares

Name of Shareholder	Capacity and nature of interest	Number of ordinary shares held	Aggregate percentage of interest as at the Latest Practicable Date[1]
Crisana	Directly beneficially owned	71,450,000 [2]	22.96%
Assetbest Limited	Directly beneficially owned	32,272,000 [3]	10.37%
Fidelity International Limited	Directly beneficially owned	17,720,692	5.69%
Underwriter	Directly beneficially owned	112,925,000	24.19%[4]

Notes:

1. This represents the percentage of aggregate long position in Shares and underlying Shares to the total issued share capital of the Company as at the Latest Practicable Date.

2. These 71,450,000 Shares were held by Crisana, a company which is wholly and beneficially owned by Mr. Tse Kam Pang, the Chairman of the Company, who is deemed to be interested in the 71,450,000 Shares held by Crisana. In addition, Mr. Tse Kam Pang personally held 6,152,000 Shares.

3. These 32,272,000 Shares were held by Assetbest Limited, a company which is wholly and beneficially owned by Mr. Huang Wai Jei, who is therefore deemed to be interested in the 32,272,000 Shares held by Assetbest Limited.

4. These 112,925,000 Shares are Underwritten Shares. The percentage of interest represents the percentage of the Company's enlarged share capital upon completion of the Open Offer.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or Chief Executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

(c) Directors' Interests in contracts and assets

As at the Latest Practicable Date, none of the Directors had materially interested in contract or arrangement subsisting which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or might compete with the business of the Group or any other conflict of interests with the Group.

7. LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claims of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened by or against any member of the Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Group which cannot be terminated by the Company within one year without payment of compensation.

9. EXPERT AND CONSENT

(a) Qualification of expert

The following is the qualification of the expert who has given opinion and advice, which is contained in this Prospectus:

Name	Qualifications
Ernst & Young	Certified Public Accountants

(b) Consent of expert

Ernst & Young has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and the references to its name in the form and context in which they are included.

(c) Interests of expert

As at the Latest Practicable Date, Ernst & Young:

(i) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up; and

(ii) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of the Prospectus Documents and the consent letter(s) referred to the sub-section "Expert and Consent" in the Appendix have been registered with the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies Ordinance.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

(i) the share sale and purchase agreement dated 29 June 2007 entered into between Platinum Tools Trading Limited and Hong Kong Royal Furniture Holding Limited, a wholly owned subsidiary of the Company for the acquisition of 19% of the entire issued share capital in Grandeur Industries Limited at a consideration of HK$18,000,000 satisfied by way of the allotment and issue of Consideration Shares (as defined below), which has been completed;

(ii) the sub-agreement dated 8 October 2007 entered into between Platinum Tools Trading Limited and Hong Kong Royal Furniture Holding Limited, a wholly owned subsidiary of the Company in relation to the allotment and issue of 10,588,000 shares ("Consideration Shares") in the authorized share capital of the Company to Platinum Tools Trading Limited which has been completed; and

(iii) the Underwriting Agreement

12. MISCELLANEOUS

In the event of inconsistency, the English version of this Prospectus shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Room 204, 2/F Wing On Plaza, 62 Mody Road, Tsimshatsui East, Kowloon, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 28 February 2009:

(a) the Memorandum and Articles of Association of the Company;

(b) the material contract(s) referred to in the paragraph headed "Material Contracts" in this Appendix;

(c) the annual reports of the Group for the two years ended 31 December 2006 and 2007;

(d) the interim report of the Company for the six months ended 30 June 2008;

(e) the report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group from Ernst & Young, the text of which is set out on pages 113 to 115 of this Prospectus;

(f) the consent letter from Ernst & Young referred to in the paragraph headed "Expert and Consent" in this Appendix; and

(g) this Prospectus and the Application Form.