
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this document or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Royale Furniture Holdings Limited** (the “Company”), you should at once hand this document, together with the accompanying Form of Approval and Acceptance (as defined herein) to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This document should be read in conjunction with the accompanying Form of Approval and Acceptance, the contents of which form part of the terms and conditions of the Partial Offer.

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ROYALE FURNITURE HOLDINGS LIMITED

CHARMING FUTURE HOLDINGS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

皇朝傢俬控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1198)

**VOLUNTARY CONDITIONAL PARTIAL CASH OFFER BY
VC BROKERAGE LIMITED
ON BEHALF OF CHARMING FUTURE HOLDINGS LIMITED
TO ACQUIRE 121,645,110 OFFER SHARES
IN THE ORDINARY SHARE CAPITAL OF
ROYALE FURNITURE HOLDINGS LIMITED
FROM QUALIFYING SHAREHOLDERS**

Financial adviser to Charming Future Holdings Limited



VC Capital Limited

**Independent financial adviser to the independent board committee of
the Company**



A letter from the board of directors of the Company is set out on pages 7 to 12 of this document. A letter from VC Brokerage Limited containing, among other things, details of the terms of the Partial Offer is set out on pages 13 to 25 of this document. A letter from the Independent Board Committee to the Qualifying Shareholders (as defined herein) containing its recommendations in respect of the Partial Offer is set out on pages 26 to 27 of this document. A letter from Veda Capital Limited containing their advice to the Independent Board Committee in respect of the Partial Offer is set out on pages 28 to 43 of this document.

Custodians, nominees and trustees who would, or otherwise intend to, forward this document and/or the accompanying Form of Approval and Acceptance to any jurisdiction outside Hong Kong should read carefully the paragraphs headed “Overseas Shareholders” in the letter from VC Brokerage Limited and in Appendix I to this document.

10 June 2009

* For identification purpose only

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EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company.

Partial Offer opens for approval and acceptance Wednesday, 10 June 2009

Latest time and date for approval and acceptance of
the Partial Offer on the First Closing Date
(Note 1) 4:00 p.m. on Thursday, 2 July 2009

First Closing Date (Note 1) Thursday, 2 July 2009

Announcement on the results of
the Partial Offer as at the First Closing Date
to be posted on the Stock Exchange's not later than 7:00 p.m.
website (Note 2) on Thursday, 2 July 2009

Latest time and date for approval and acceptance of the Partial Offer
assuming that the Partial Offer becomes or is declared
unconditional as to acceptances on the First Closing Date
(Note 3) 4:00 p.m. on Thursday, 16 July 2009

Final Closing Date (Note 3) Thursday, 16 July 2009

Announcement on the results of the Partial Offer
as at the Final Closing Date to be posted not later than 7:00 p.m.
on the Stock Exchanges's website (Note 2) on Thursday, 16 July 2009

Latest date for posting of remittances for
amounts due under the Partial Offer in respect of
valid acceptances received on or before
4:00 p.m. on Thursday, 16 July 2009 (Note 4) Friday, 24 July 2009

Latest date by which the Partial Offer can become unconditional
as to acceptances (Note 5) Friday, 7 August 2009

EXPECTED TIMETABLE

Notes:

1. In order to approve and accept the Partial Offer, Qualifying Shareholders are required to submit the duly completed Form of Approval and Acceptance on or before 4:00 p.m. on Thursday, 2 July 2009, being the First Closing Date. If on a closing day, acceptances received exceed 121,645,110 Offer Shares, the Offeror must declare the Partial Offer unconditional as to acceptances and comply with Rule 15.3 of the Takeovers Code for the Partial Offer to remain open for acceptance for not less than 14 days thereafter. If the acceptance condition is fulfilled, the Offeror may also declare the Partial Offer unconditional as to acceptances prior to the First Closing Date, provided that the Offeror fully complies with Rule 15.3 of the Takeovers Code. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**
2. The announcement on the results of the Partial Offer will be issued by the Offeror on the Stock Exchange's website by 7:00 p.m. on the day when the Partial Offer has become or been declared unconditional as to acceptances (if such date is prior to the First Closing Date), on the First Closing Date and on the Final Closing Date. Such announcement will comply with the disclosure requirements under Rule 19.1 and Note 7 to Rule 19 of the Takeovers Code and will include, amongst other things, the results of the Partial Offer and details of the way in which each Accepting Shareholder's pro rata entitlement was determined. In any announcement of an extension of the Partial Offer, either the next closing date must be stated or, if the Partial Offer has become or been declared unconditional as to acceptances, a statement may be made that the Partial Offer will remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**
3. Pursuant to Rule 15.3 of the Takeovers Code, the Final Closing Date would be not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**
4. Remittances in respect of the Offer Shares tendered for acceptance under the Partial Offer (after deducting seller's ad valorem stamp duty) will be posted to the relevant Accepting Shareholders by ordinary post at their own risk as soon as possible, but in any event within 10 days following the close of the Partial Offer.
5. **In accordance with the Takeovers Code, except with the consent of the Executive, the Partial Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day the Composite Offer Document was posted. Accordingly, unless the Partial Offer has previously become unconditional as to acceptances, the Partial Offer will lapse on Friday, 7 August 2009 unless extended with the consent of the Executive.**

All references to times and dates in the Composite Offer Document refer to Hong Kong times and dates.

DEFINITIONS

In the Composite Offer Document, unless the context otherwise requires, the following expressions shall have the following meanings:

“Accepting Shareholder(s)”	Qualifying Shareholder(s) accepting the Partial Offer
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“AGM”	the annual general meeting of the Company held on 5 June 2009
“Announcement”	the announcement issued jointly by the Offeror and the Company dated 6 May 2009 in relation to the Partial Offer
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day”	a day (other than Saturdays, Sundays and public holidays) on which banks are open for business in Hong Kong
“CCASS”	Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Company”	Royale Furniture Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Composite Offer Document”	this composite offer and response document jointly issued by the Company and the Offeror
“Conditions”	the conditions as set out under the section headed “Conditions of the Partial Offer” in the letter from VC Brokerage to which the Partial Offer is subject
“Crisana”	Crisana International Inc., a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Tse Kam Pang, and was interested in 107,175,000 Shares as at the Latest Practicable Date

DEFINITIONS

“Director(s)”	the director(s) of the Company
“Excluded Shareholder(s)”	any overseas Shareholder(s) whose address(es), as shown on the Register as at the Latest Practicable Date, was outside Hong Kong and located in a jurisdiction the laws of which prohibit the making of the Partial Offer to such Shareholders or otherwise require the Company to comply with additional requirements which are (in the opinion of the Directors, but subject to the prior consent of the Executive) unduly onerous or burdensome, having regard to the number of Shareholders involved in that jurisdiction and their shareholdings in the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Final Closing Date”	being (i) a day not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances, which will be on or after the First Closing Date and in any event not beyond the 14th day after the First Closing Date; or (ii) the First Closing Date if the Partial Offer is not declared unconditional as to acceptances on the First Closing Date
“First Closing Date”	Thursday, 2 July 2009, being the first closing date of the Partial Offer, or such later date as may be extended by the Offeror in accordance with the Takeovers Code
“Form of Approval and Acceptance”	the form of approval and acceptance issued with the Composite Offer Document to Qualifying Shareholders for use by such persons in connection with the Partial Offer
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors who have no interest in the Partial Offer, namely Dr. Donald H. Straszheim, Mr. Chang Chu Fai Johnson Francis and Mr. Yau Chung Hong, which has been formed to advise the Qualifying Shareholders in respect of the Partial Offer
“Independent Financial Adviser” or “Veda Capital”	Veda Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the Partial Offer
“Last Trading Day”	4 May 2009, being the last trading day prior to suspension of trading in the Shares on 5 May 2009
“Latest Practicable Date”	8 June 2009, being the latest practicable date prior to the printing of the Composite Offer Document for the purpose of ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Offer Period”	has the meaning ascribed to it under the Takeovers Code and commencing from the date of the Announcement
“Offer Price”	HK\$0.33 per Offer Share
“Offer Share(s)”	the Share(s) which are the subject of the Partial Offer
“Offeror”	Charming Future Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly and beneficially owned by Mr. Tse Kam Pang
“Partial Offer”	the voluntary conditional partial cash offer made by VC Brokerage, for and on behalf of the Offeror to acquire 121,645,110 Offer Shares at the Offer Price in cash from the Qualifying Shareholders in accordance with the Takeovers Code on the terms and conditions as set out in the Composite Offer Document and the accompanying Form of Approval and Acceptance, and any subsequent revision or extension of such offer

DEFINITIONS

“Qualifying Shareholder(s)”	Shareholders, other than the Offeror and parties acting in concert with it and the Excluded Shareholders (if any)
“Register”	the register of members of the Company
“Relevant Period”	the period commencing on 7 November 2008 (being the date falling six months prior to 6 May 2009, the date of the Announcement) and up to the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of the Share(s)
“Share Registrar”	Tricor Tengis Limited, being the Hong Kong branch share registrar and transfer office of the Company, whose address is situated at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers
“VC Brokerage”	VC Brokerage Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, which is making the Partial Offer for and on behalf of the Offeror
“VC Capital”	VC Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser to the Offeror in respect of the Partial Offer
“%”	per cent.

LETTER FROM THE BOARD



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:

Tse Kam Pang
Ma Gary Ming Fai
Lam Toi

Independent non-executive Directors:

Donald H. Straszheim
Chang Chu Fai Johnson Francis
Yau Chung Hong

Registered office:

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

*Head office and principal place
of business in Hong Kong:*

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

10 June 2009

To the Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL PARTIAL CASH OFFER BY
VC BROKERAGE LIMITED
ON BEHALF OF CHARMING FUTURE HOLDINGS LIMITED
TO ACQUIRE 121,645,110 OFFER SHARES
IN THE ORDINARY SHARE CAPITAL OF
ROYALE FURNITURE HOLDINGS LIMITED
FROM QUALIFYING SHAREHOLDERS**

INTRODUCTION

On 6 May 2009, the Offeror and the Company jointly announced that VC Brokerage, on behalf of the Offeror, intended to make a voluntary conditional partial cash offer to acquire 121,645,110 Offer Shares (representing approximately 26.06% of the existing issued share capital of the Company as at the Latest Practicable Date) from the Qualifying Shareholders.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of the Composite Offer Document, of which this letter forms a part, is to provide you with, among other things, (i) the information relating to the Group and the Partial Offer; (ii) the letter from the Independent Board Committee containing its recommendation and advice to the Qualifying Shareholders in respect of the Partial Offer; and (iii) the letter from Veda Capital containing its advice to the Independent Board Committee in respect of the Partial Offer.

Unless the context otherwise requires, terms used in this letter have same meanings as those defined in the Composite Offer Document.

THE PARTIAL OFFER

VC Brokerage, on behalf of the Offeror, makes the Partial Offer to acquire 121,645,110 Offer Shares (representing approximately 26.06% of the existing issued share capital of the Company as at the Latest Practicable Date) from the Qualifying Shareholders at the Offer Price of HK\$0.33 per Offer Share in cash, payable by the Offeror. Assuming full acceptance of the Partial Offer, the aggregate cash consideration payable by the Offeror under the Partial Offer will amount to approximately HK\$40.14 million.

As disclosed in the results announcement of the Company dated 20 April 2009, the Board has recommended the payment of a final dividend of HK1.0 cent per Share for the year ended 31 December 2008 and the same had been approved by the Shareholders at the AGM. The final dividend will be distributed on or about 12 June 2009 to Shareholders whose names appeared on the Register as at the close of business on 5 June 2009. As the closing of the Partial Offer will take place after the aforesaid dividend record date, Qualifying Shareholders as at the dividend record date for payment of the final dividend will be entitled to retain the final dividend, notwithstanding that they accept the Partial Offer.

As set out in the circular of the Company dated 30 April 2009, the Directors had resolved to cancel all the 20,614,736 outstanding share options which have been granted under the share option scheme adopted by the Company on 26 April 2002 but not exercised, subject to the approval of the Shareholders at the AGM. Such resolution was approved at the AGM and the 20,614,736 outstanding share options were duly cancelled. Therefore, the irrevocable undertakings given by the option holders of the Company as referred to in the Announcement have become inapplicable for the purpose of the Partial Offer.

Further details of the Partial Offer are set out in the “Letter from VC Brokerage” on pages 13 to 25 of the Composite Offer Document, Appendix I to the Composite Offer Document and the accompanying Form of Approval and Acceptance.

LETTER FROM THE BOARD

THE INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

Your attention is drawn to the paragraph headed “Intentions of the Offeror and Maintaining the Listing Status of the Company” in the “Letter from VC Brokerage” on pages 13 to 25 of the Composite Offer Document.

The Board notes that the Offeror (i) intends to continue the existing businesses of the Group; (ii) has no intention to introduce any major changes to the businesses of the Group; and (iii) intends that the employment of the employees of the Group will be continued and the fixed assets of the Group will not be redeployed as a result of the Partial Offer.

The Board consents to the intentions of the Offeror in respect of the Group. In particular, the Directors consider that the successful implementation of the Partial Offer would allow Mr. Tse Kam Pang, the Chairman of the Company, to strengthen his relationship with the Group for the future development of the Group under his stewardship. The Directors also believe that the Partial Offer would signify Mr. Tse’s commitment to the Group, thereby strengthening the Group’s overall relationships with its potential lenders, customers, suppliers and employees. The Directors would like to emphasize that a strong commitment from Mr. Tse Kam Pang, who is the Chairman and the largest Shareholder of the Company, as shown by his making of the Partial Offer, can help maintain the trust and confidence between the Group and its stakeholders, which is very important for the business operation and development of the Group in view of the difficult time amidst the global financial turmoil.

The Board also understands that the Offeror has no intention to avail itself of any powers of compulsory acquisition.

CHANGES IN SHAREHOLDING STRUCTURE

The table below shows the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Partial Offer on the assumptions that: (i) the Partial Offer has been accepted in full by the Qualifying Shareholders; (ii) the Offer Shares will be acquired from the Qualifying Shareholders only and not from any of the substantial Shareholders and Directors and their respective concert parties; and (iii) no additional Shares will be issued or repurchased by the Company from the Latest Practicable Date up to and including the date of completion of the Partial Offer:

LETTER FROM THE BOARD

Name of Shareholders	As at the Latest Practicable Date		Immediately after completion of the Partial Offer	
	Number of Shares	Approx %	Number of Shares	Approx %
Offeror and parties acting in concert with it				
The Offeror (<i>Note 1</i>)	0	0	121,645,110	26.06
Crisana (<i>Note 1</i>)	107,175,000	22.96	107,175,000	22.96
Tse Kam Pang (<i>Note 2</i>)	9,228,000	1.98	9,228,000	1.98
Sub-total	116,403,000	24.94	238,048,110	51.00
Upwise Investments Limited (<i>Note 3</i>)	2,697,000	0.58	2,697,000	0.58
Ma Gary Ming Fai (<i>Note 2</i>)	7,221,000	1.55	7,221,000	1.55
CNI Assets Management Ltd (<i>Note 4</i>)	1,065,000	0.23	1,065,000	0.23
Yau Chung Hong (<i>Note 2</i>)	600,000	0.13	600,000	0.13
Assetbest Limited (<i>Note 5</i>)	48,408,000	10.37	48,408,000	10.37
Public Shareholders	290,367,000	62.20	168,721,890	36.14
Total	466,761,000	100.00	466,761,000	100.00

Notes:

- Mr. Tse Kam Pang is interested in the entire issued share capital of each of the Offeror and Crisana.
- Mr. Tse Kam Pang and Mr. Ma Gary Ming Fai are executive Directors. Mr. Yau Chung Hong is an independent non-executive Director.
- Upwise Investments Limited is a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Ma Gary Ming Fai, an executive Director.
- CNI Assets Management Ltd is a company incorporated in Hong Kong with limited liability and is wholly owned by Mr. Yau Chung Hong, an independent non-executive Director.
- Assetbest Limited is a company wholly and beneficially owned by Mr. Huang Wai Jei.

Save as disclosed above, none of the Directors had any interests in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

LETTER FROM THE BOARD

In the event that the Partial Offer is declared unconditional in all respects, the interests of the Offeror and parties acting in concert with it in the Company would increase from approximately 24.94% as at the Latest Practicable Date to approximately 51% immediately upon completion of the Partial Offer. **Shareholders should note that if the Partial Offer succeeds, the Offeror will be free, subject to the restriction of acquisition of voting rights of the Company by the Offeror and parties acting in concert with it and those who subsequently become parties acting in concert with the Offeror (where applicable) during the Offer Period and during the 12-month period immediately following the end of the Offer Period under Rule 28.3 of the Takeovers Code, to acquire further Shares without incurring any obligation to make a general offer.**

INFORMATION ON THE GROUP

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in investment holding and the design, manufacture and sales of a wide range of home furniture.

GENERAL

Your attention is drawn to the “Letter from VC Brokerage” of the Composite Offer Document, Appendix I to the Composite Offer Document and the accompanying Form of Approval and Acceptance for the principal terms and the acceptance and settlement procedures of the Partial Offer.

Your attention is also drawn to the “Letter from the Independent Board Committee” as set out on pages 26 to 27 of the Composite Offer Document as well as the “Letter from Veda Capital” as set out on pages 28 to 43 of the Composite Offer Document which contains, among other things, their advice to the Independent Board Committee in respect of the Partial Offer and the principal factors and reasons considered by it in arriving at such advice.

Your attention is further drawn to the “General Information” as set out in Appendix IV to the Composite Offer Document.

LETTER FROM THE BOARD

The Partial Offer may or may not become unconditional in all respects. Completion of the Partial Offer is a possibility only. Shareholders and potential investors of the Company are advised to exercise extreme caution when dealing in the securities of the Company. If the Partial Offer is declared unconditional as to acceptances before the First Closing Date, the Offeror will publish an announcement on the Stock Exchange's website by 7:00p.m. on the same day to inform the Shareholders that the Partial Offer has become or been declared unconditional as to acceptances. Such announcement will comply with the disclosure requirements under Rule 19.1 and Note 7 to Rule 19 of the Takeovers Code and will include, amongst other things, the results of the Partial Offer and details of the way in which each Accepting Shareholder's pro rata entitlement was determined. If the Partial Offer is not previously declared unconditional as to acceptances, the Offeror will publish an announcement on the Stock Exchange's website by 7:00p.m. on the First Closing Date to inform the Shareholders the results of the Partial Offer and as to whether or not the Partial Offer has been revised or extended, has expired or has become or been declared unconditional as to acceptances.

RECOMMENDATION OF THE BOARD

Having taken into account the terms of the Partial Offer and the advice of the Independent Board Committee, the Board considers that the terms of the Partial Offer are fair and reasonable so far as the Qualifying Shareholders are concerned and advises the Qualifying Shareholders to approve and accept the Partial Offer.

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

LETTER FROM VC BROKERAGE



VC Brokerage Limited

28/F The Centrium
60 Wyndham Street
Central, Hong Kong

10 June 2009

To the Qualifying Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL PARTIAL CASH OFFER BY
VC BROKERAGE LIMITED
ON BEHALF OF CHARMING FUTURE HOLDINGS LIMITED
TO ACQUIRE 121,645,110 OFFER SHARES
IN THE ORDINARY SHARE CAPITAL OF
ROYALE FURNITURE HOLDINGS LIMITED
FROM QUALIFYING SHAREHOLDERS**

INTRODUCTION

On 6 May 2009, the Offeror and the Company jointly announced that VC Brokerage, on behalf of the Offeror, intended to make a voluntary conditional partial cash offer to acquire 121,645,110 Offer Shares (representing approximately 26.06% of the existing issued share capital of the Company) from the Qualifying Shareholders at the Offer Price of HK\$0.33 per Offer Share.

The purpose of this letter is to provide you with, among other things, the terms of the Partial Offer. Further details of the terms and conditions of the Partial Offer are set out in Appendix I to the Composite Offer Document and the accompanying Form of Approval and Acceptance.

Your attention is drawn to the letter from the Board as set out on pages 7 to 12 of the Composite Offer Document. You are also strongly advised to read the letter from the Independent Board Committee as set out on pages 26 to 27 of the Composite Offer Document which contains its recommendation to the Qualifying Shareholders in respect of the Partial Offer and the letter from Veda Capital as set out on pages 28 to 43 of the Composite Offer Document containing its advice to the Independent Board Committee in respect of the Partial Offer.

LETTER FROM VC BROKERAGE

TERMS OF THE PARTIAL OFFER

The Partial Offer will be made on the terms set out below:

(a) Offer Price

VC Brokerage, on behalf of the Offeror, will make the Partial Offer to acquire 121,645,110 Offer Shares on the following basis:

For each Offer Share..... HK\$0.33 in cash

(b) Conditions of the Partial Offer

Pursuant to Rule 28.5 of the Takeovers Code, the Partial Offer will be conditional upon:

- (i) acceptances being received in respect of a minimum of 121,645,110 Offer Shares; and
- (ii) approval by the Qualifying Shareholders (excluding the Offeror and parties acting in concert with it) who are registered as Shareholders in the Register as at the Final Closing Date, holding over 50% of the voting rights not held by the Offeror and parties acting in concert with it, signified by means of ticking a separate box on the Form of Approval and Acceptance, specifying the number of Shares in respect of which the Partial Offer is approved.

In the event that valid acceptances are received for less than 121,645,110 Offer Shares on the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code, the Partial Offer will not proceed and will immediately lapse.

In the event that valid acceptances are received for not less than 121,645,110 Offer Shares on or prior to the First Closing Date, the Offeror will declare the Partial Offer unconditional as to acceptances on or prior to the First Closing Date.

Pursuant to Rule 15.3 of the Takeovers Code, the Final Closing Date would be not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. The Final Closing Date will be a day on or after the First Closing Date and in any event not beyond the 14th day after the First Closing Date, or the First Closing Date if the Partial Offer is not declared unconditional as to acceptances on or before the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**

LETTER FROM VC BROKERAGE

Pursuant to Rule 15.5 of the Takeovers Code, except with the consent of the Executive, the Partial Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day the Composite Offer Document was posted. Accordingly, the latest date by which the Partial Offer can become unconditional as to acceptances is Friday, 7 August 2009.

VALUE OF THE PARTIAL OFFER

The Offer Price of HK\$0.33 represents:

- (i) a discount of approximately 1.49% to the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 1.49% to the average closing price of HK\$0.335 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 4.62% to the average closing price of HK\$0.346 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 30.53% to the closing price of HK\$0.475 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 65.63% to the audited consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.96 per Share as at 31 December 2008.

As at the Latest Practicable Date, the Company had 466,761,000 Shares in issue. The Partial Offer for 121,645,110 Offer Shares is being valued at approximately HK\$40.14 million based on the Offer Price of HK\$0.33 per Offer Share.

On the basis of the Offer Price of HK\$0.33 per Offer Share, the entire issued share capital of the Company is valued at approximately HK\$154.03 million.

HIGHEST AND LOWEST CLOSING PRICES OF THE SHARES

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the six-month period from 5 November 2008, being the date falling six months prior to 4 May 2009, being the Last Trading Day, up to and including the Latest Practicable Date, were HK\$0.51 per Share on 20 May 2009 and HK\$0.275 per Share on 19 February 2009.

LETTER FROM VC BROKERAGE

TOTAL CONSIDERATION FOR THE PARTIAL OFFER AND FINANCIAL RESOURCES OF THE OFFEROR

Assuming full acceptance of the Partial Offer, the cash consideration payable by the Offeror at the Offer Price of HK\$0.33 per Offer Share will amount to approximately HK\$40.14 million. The Offeror will finance the Partial Offer through its concert party's own financial resources.

VC Capital, the financial adviser to the Offeror in relation to the Partial Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy payment of the cash consideration on acceptance of the Partial Offer in full.

OTHER TERMS OF THE PARTIAL OFFER

The maximum number of Shares to be taken by the Offeror pursuant to the Partial Offer is 121,645,110 Shares, representing approximately 26.06% of the existing issued share capital of the Company of 466,761,000 Shares and approximately 34.72% of 350,358,000 Shares held by Qualifying Shareholders (being 466,761,000 Shares in issue less the 116,403,000 Shares held by the Offeror and parties acting in concert with it) as at the Latest Practicable Date.

Qualifying Shareholders may accept the Partial Offer in respect of some or all of their shareholding. In order to simplify the process of determining the number of Offer Shares to be taken up by the Offeror, the Offeror has adopted the common pool method as prescribed in Practice Note 1 to the Takeovers Code, instead of the share register method as set out in the Announcement, to make the Partial Offer. Under the common pool method, there will be no record date to determine the assured entitlement for the Qualifying Shareholders, and hence a Qualifying Shareholder will not be assured as to the number of Shares being accepted by the Offeror if he/she tenders the Shares. The Shares tendered by an Accepting Shareholder will be taken up by the Offeror in accordance with the following formula:

$$\frac{A}{B} \times C$$

A = 121,645,110 Offer Shares (being the total number of Offer Shares for which the Partial Offer is made)

B = Total number of Shares tendered under the Partial Offer

C = The number of Shares tendered by the relevant Qualifying Shareholder

LETTER FROM VC BROKERAGE

In any event, the number of Offer Shares taken up by the Offeror from each Accepting Shareholder will not exceed the number of the Shares tendered by him/her. In addition, it is possible that if a Qualifying Shareholder tenders all of his/her Shares to the Offeror under the Partial Offer, not all of such Shares will be taken up by the Offeror. Fractions of Shares will not be taken up by the Offeror under the Partial Offer and accordingly, the number of Shares that the Offeror will take up from each Accepting Shareholder in accordance with the above formula will be rounded up or down to the nearest whole number at the discretion of the Offeror, which will be conclusive and binding on all Qualifying Shareholders.

Acceptance of the Partial Offer by any Qualifying Shareholder will, subject to the Partial Offer becoming unconditional in all respects, be deemed to constitute a warranty by such Qualifying Shareholder that all Shares tendered by such Qualifying Shareholder under the Partial Offer are free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the Final Closing Date.

EFFECT ON ACCEPTING THE PARTIAL OFFER

By validly accepting the Partial Offer, Qualifying Shareholders will sell their tendered Shares which are finally taken up by the Offeror in accordance with the formula as set out under the section headed “Other Terms of the Partial Offer” in this letter free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the Final Closing Date. Any dividends or other distributions declared, made or paid before the Final Closing Date will be paid by the Company to the Shareholders who are qualified for such dividends or distributions. In particular, as the closing of the Partial Offer will take place after the dividend record date for payment of the final dividend of HK1.0 cent per Share for the year ended 31 December 2008, Qualifying Shareholders as at the dividend record date for payment of the final dividend will be entitled to retain the final dividend, notwithstanding that they accept the Partial Offer.

LETTER FROM VC BROKERAGE

PROCEDURE FOR ACCEPTANCE AND APPROVAL

Whether a Qualifying Shareholder considers to accept the Partial Offer or not, he/she is strongly recommended to provide his/her decision on the approval of the Partial Offer by completing Box A in the Form of Approval and Acceptance.

If the Partial Offer is declared unconditional as to acceptances, the Partial Offer will be open for not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances in accordance with Rule 15.3 of the Takeovers Code. The Company reserves the right to extend or revise the First Closing Date in accordance with the Takeovers Code. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**

In order to accept/approve the Partial Offer, Qualifying Shareholders should complete and return the accompanying Form of Approval and Acceptance in accordance with the instructions printed in the Composite Offer Document and on the Form of Approval and Acceptance. The instructions in the Composite Offer Document should be read together with the instructions on the Form of Approval and Acceptance (which instructions form part of the terms of the Partial Offer).

Qualifying Shareholders are required to submit the duly completed Form of Approval and Acceptance, together with the Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the exact number of Shares in respect of which the relevant Qualifying Shareholder wishes to accept the Partial Offer, by post or by hand to the Share Registrar, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in an envelope marked "**Royale Furniture — Partial Offer**" as soon as possible after receipt of the Form of Approval and Acceptance but in any event so as to reach the Share Registrar by no later than 4:00 p.m. (Hong Kong time) on the First Closing Date or such other time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce. If the number of Shares tendered by a Qualifying Shareholder is different from the number of Shares stated in the Form of Approval and Acceptance, his/her acceptance will be considered as invalid. In accordance with Rule 15.3 of the Takeovers Code, when the Partial Offer is declared unconditional as to acceptances, the Partial Offer will be open for acceptance for not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**

No acknowledgement of receipt of any Form of Approval and Acceptance, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities in respect thereof) will be given.

Only one Form of Approval and Acceptance will be accepted from each Qualifying Shareholder by the Share Registrar. Tenders duly received will become irrevocable and cannot be withdrawn after the Partial Offer has been declared unconditional as to acceptances except in the circumstances as described in the section headed "Irrevocable Acceptances" under Appendix I to the Composite Offer Document.

LETTER FROM VC BROKERAGE

Whether or not the Qualifying Shareholders accept the Partial Offer, they may approve the Partial Offer AND specify the number of Shares in respect of which they approve the Partial Offer in the Form of Approval and Acceptance. Each Share shall be entitled to ONE vote only. Multiple votes in respect of the same Share will not be taken into account in counting the approval of the Partial Offer. Only ONE Form of Approval and Acceptance will be accepted from each Qualifying Shareholder by the Share Registrar and only ONE vote for each Share will be cast. If a Qualifying Shareholder has put a tick “✓” to indicate his/her approval of the Partial Offer on the Form of Approval and Acceptance but no number of Shares in respect of such approval is specified, the approval will be considered invalid. If a Qualifying Shareholder has put a tick “✓” to indicate his/her approval of the Partial Offer and a number in excess of his/her registered holding of Shares on the Final Closing Date is inserted in respect of such approval on the Form of Approval and Acceptance, his/her approval will be considered as invalid. Therefore, if a Qualifying Shareholder has submitted his/her Form of Approval and Acceptance and that his/her registered holding of Shares on the Final Closing Date will be lower than the number of Shares as specified in the right column of Box A on his/her Form of Approval and Acceptance, he/she is requested to contact the Share Registrar to amend the number of Shares in respect of his/her approval on his/her Form of Approval and Acceptance. Qualifying Shareholders may vote in respect of the total number of Shares held by him/her even though it may be more than the number of Shares tendered for acceptance.

NOMINEE REGISTRATION OF SHARES

To ensure equality of treatment of all Qualifying Shareholders, those Qualifying Shareholders who hold Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. **In order for beneficial owners of Shares, whose investments are registered in nominee names (including those whose interests in Shares are held through CCASS), to approve and/or accept the Partial Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Partial Offer.**

INFORMATION OF THE OFFEROR

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Tse Kam Pang, the Chairman of the Company and an executive Director. Mr. Tse Kam Pang is also the sole director of the Offeror.

DEALINGS IN SECURITIES

As at the Latest Practicable Date, Mr. Tse Kam Pang and Crisana were interested in an aggregate of 116,403,000 Shares, representing approximately 24.94% of the existing issued share capital of the Company. Save for the aforesaid, neither the Offeror nor parties acting in concert with it held any Shares or any outstanding warrants, options or securities of the Company which were convertible into Shares, nor were there any outstanding derivative in respect of securities in the Company entered into by the Offeror or parties acting in concert with it as at the Latest Practicable Date.

Pursuant to an open offer for new Shares on the basis of one new Share for every two existing Shares as announced by the Company on 15 January 2009, which was completed in March 2009 (within the Relevant Period), Mr. Tse Kam Pang and Crisana have taken up their respective pro rata entitlements under the open offer by subscribing for an aggregate of 38,801,000 new Shares at HK\$0.27 per Share. The percentage interests of Mr. Tse and Crisana in the issued share capital of the Company immediately upon completion of the open offer therefore remained the same as their respective positions immediately prior to the open offer, being approximately 24.94%.

LETTER FROM VC BROKERAGE

Save for the aforesaid, neither the Offeror nor parties acting in concert with it had acquired any voting rights in the Company during the Relevant Period. The Offeror and parties acting in concert with it further undertake that they will not acquire any voting rights in the Company from the Latest Practicable Date up to the end of the Offer Period.

REASONS FOR THE PARTIAL OFFER

The Offeror believes that an increased shareholding in the Company, which may result from the Partial Offer, would allow Mr. Tse Kam Pang, currently a substantial Shareholder and the Chairman of the Company, to strengthen his relationship with the Group for effective implementation of the business plans of the Group. The Partial Offer would also offer an opportunity to those Shareholders who wish to realise part of their investment to do so without having to incur the brokerage fees, transaction levies and trading fees which are customarily payable when disposing of Shares in the open market, whilst retaining the balance of their equity interest in the Company in order to participate in the future growth of the Group. Shareholders should note that seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 (or part thereof) of the value of the consideration arising on acceptance of the Partial Offer will be payable by the Qualifying Shareholders who accept the Partial Offer, as detailed under the section headed "Stamp Duty" in this letter.

The Offeror has decided to proceed with the Partial Offer instead of a general offer for the Shares not already owned by it or parties acting in concert with it since the Offeror intends to maintain the listing status of the Company. Moreover, the Offeror and parties acting in concert with it believe that the Partial Offer represents their strong long term commitment in the Group, thereby strengthening the Group's overall relationships with its potential lenders, customers and suppliers alike.

INTENTIONS OF THE OFFEROR AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror intends to continue the existing businesses of the Group and does not intend to introduce any major changes to the businesses of the Group. The Offeror also intends that the employment of the employees of the Group will be continued and the fixed assets of the Group will not be redeployed as a result of the Partial Offer.

The Offeror intends to maintain the listing status of the Company on the Stock Exchange upon the completion of the Partial Offer. As at the Latest Practicable Date, the Company had a public float of approximately 62.20% of the entire issued share capital of the Company. Assuming full acceptances of the Partial Offer, the Company will have a public float of not less than approximately 36.14% of the entire issued share capital of the Company immediately following the completion of the Partial Offer and accordingly the number of Shares in public hands will continue to meet the public float requirement under Rule 8.08 of the Listing Rules.

LETTER FROM VC BROKERAGE

COMPULSORY ACQUISITION

The Offeror does not intend to avail itself of any powers of compulsory acquisition.

OVERSEAS SHAREHOLDERS

The Composite Offer Document will not be filed under the applicable securities or equivalent legislation or rules of any jurisdiction other than Hong Kong.

Based on the Register, there was one overseas Shareholder holding 20,000 Shares with registered address in Macau, a jurisdiction outside Hong Kong, as at the Latest Practicable Date. The Offeror has made enquiries regarding the legal restrictions under the applicable securities legislation in Macau and the requirements of the relevant regulatory body or stock exchange with respect to the Partial Offer in relation to such overseas Shareholder in Macau.

The Offeror has obtained advice from legal advisers in Macau that no local regulatory compliance is required to be made in Macau for the Partial Offer to be extended to the overseas Shareholder who resided in this jurisdiction. Accordingly, the Partial Offer will be extended to such overseas Shareholder in Macau and there will be no Excluded Shareholder.

It is the responsibility of each overseas Shareholder who wishes to accept the Partial Offer to satisfy himself or herself as to the full observance of the laws of the relevant jurisdictions in that connection, including the obtaining of any governmental or other consents which may be required or compliance with other necessary formalities or legal requirements. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Offeror that the local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

The Company shall give notice of any matter in relation to the Partial Offer to the Shareholders by issuing announcements or advertisements in accordance with its articles of association and, if so given, shall be deemed to have been sufficient for all effective purposes, despite any failure by any overseas Shareholder to receive the same.

STAMP DUTY

Seller's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 (or part thereof) of the value of the consideration arising on acceptance of the Partial Offer will be payable by the Accepting Shareholders. The relevant amount of stamp duty payable by the Accepting Shareholders will be deducted from the consideration payable to the Accepting Shareholders under the Partial Offer. The Offeror will bear its own portion of buyer's ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration payable in respect of relevant acceptances of the Partial Offer and will be responsible to account to the Stamp Office of Hong Kong all the stamp duty payable for the sale and purchase of the Offer Shares which are validly tendered for acceptance under the Partial Offer.

LETTER FROM VC BROKERAGE

ODD LOTS

The Shares are currently traded in board lots of 2,000 Shares each. Such board lot size will not be changed as a result of the implementation of the Partial Offer.

As set out in the section headed “Other Terms of the Partial Offer” in this letter, an Accepting Shareholder may, as a result of the Partial Offer, hold odd lots of the Shares.

For this purpose, VC Brokerage Limited, whose address is at 28/F The Centrium, 60 Wyndham Street, Central, Hong Kong (Contact person: Ms. Karen Yau; telephone number: (852) 2913 6239) has been appointed by the Offeror as the designated broker to match sales and purchases of odd lot holdings of Shares in the market, on a best effort basis, for a period of six weeks from the close of the Partial Offer to enable Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots of 2,000 Shares. Shareholders should note that the matching of odd lots is not guaranteed.

PAYMENT

Payment in cash in respect of acceptance of the Partial Offer will be made as soon as possible but in any event within 10 days following the close of the Partial Offer.

RESPONSIBILITY FOR DOCUMENTS

All communications, notices, Form(s) of Approval and Acceptance, Share certificate(s), transfer receipt(s), other document(s) of title (and/or any indemnity or indemnities in respect thereof) and remittances to be delivered or sent by, to or from any Shareholder will be delivered or sent by, to and from them, or their designated agents, at their own risks and none of the Offeror, the Company, VC Brokerage, the Share Registrar or any of their respective directors or any other person involved in the Partial Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

SETTLEMENT

Provided that the Partial Offer becomes unconditional in all respects and a duly completed Form of Approval and Acceptance, accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities in respect thereof) (if applicable), required in respect thereof are received by the Share Registrar by not later than 4:00 p.m. on the First Closing Date and are in order, the Share Registrar will inform the relevant Accepting Shareholder by post of the Shares to be taken up by the Offeror (if applicable). At the same time, the Share Registrar will send, by ordinary post at that Accepting Shareholder’s risk, a remittance for such total amount as is due to that Accepting Shareholder under the Partial Offer (subject to deduction of seller’s ad valorem stamp duty due on consideration payable in respect of relevant acceptances of the Partial Offer), as soon as possible but in any event within 10 days following the close of the Partial Offer.

LETTER FROM VC BROKERAGE

In the case of any Accepting Shareholder where the number of Shares represented by the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) sent in connection with his/her Form of Approval and Acceptance to the Share Registrar in acceptance of the Partial Offer exceeds 1,000,000 Shares, such Accepting Shareholder may contact the Share Registrar directly to arrange for collection in person at the Share Registrar's office of the remittance due to him/her in respect of the Shares accepted under the Partial Offer (after deducting seller's ad valorem stamp duty due on consideration payable in respect of relevant acceptances of the Partial Offer) and/or any Share certificate(s) representing Shares which are not successfully tendered and/or accepted under the Partial Offer. However, if no such prior arrangement is made with the Share Registrar, the Share Registrar will send the remittance and/or any Share certificate(s) to such Accepting Shareholder at his/her own risk as mentioned in the paragraph above.

If the Partial Offer does not become unconditional in all respects, the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities in respect thereof) (as the case may be) will be returned and/or sent to each Accepting Shareholder (by ordinary post, at that Accepting Shareholder's own risk) as soon as possible but in any event within 10 days following the lapse of the Partial Offer. Where such Accepting Shareholder has sent one or more transfer receipt(s) and in the meantime one or more Share certificate(s) has/have been collected on that Accepting Shareholder's behalf in respect thereof, that Accepting Shareholder will be sent (by ordinary post, at that Accepting Shareholder's own risk) such Share certificate(s) in lieu of the transfer receipt(s).

If the Shares tendered by an Accepting Shareholder have not been taken up by the Offeror in full, the Share certificate(s) or transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities in respect thereof) (as the case may be) in respect of the balance of such Shares or a replaced certificate therefor will be returned or sent to him/her by ordinary post at his/her own risk as soon as possible but in any event within 10 days following the close of the Partial Offer.

CONSENT FROM THE EXECUTIVE

Pursuant to 28.1 of the Takeovers Code, the Executive has consented to the Offeror making the Partial Offer.

TAX IMPLICATIONS

Qualifying Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Partial Offer. It is emphasized that none of the Company and the Offeror, its ultimate beneficial owners and parties acting in concert with any of them, VC Brokerage, VC Capital, Veda Capital, the Share Registrar or any of their respective directors or any persons involved in the Partial Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Partial Offer.

LETTER FROM VC BROKERAGE

GENERAL

As at the Latest Practicable Date, neither the Offeror nor parties acting in concert with it had received any irrevocable commitment to accept or reject the Partial Offer.

The Offeror has confirmed that it has no other arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares which might be material to the Partial Offer.

There is no agreement or arrangement to which the Offeror and/or parties acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Partial Offer.

There is no agreement or arrangement to which any of the Director will be compensated for loss of office in connection with the Partial Offer.

There is no agreement or arrangement or understanding (including any compensation arrangement) that exists between the Offeror or any person acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders of the Company having any connection with or dependence upon the Partial Offer.

As at the Latest Practicable Date, neither the Offeror nor parties acting in concert with it had borrowed or lent any Shares.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it had no agreement or understanding to transfer, charge or pledge any of the Shares acquired pursuant to the Partial Offer to any other persons.

As at the Latest Practicable Date, there were no relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Company which were held or dealt with by non-exempt discretionary fund managers and principal traders connected with the Offeror and the Company in the Relevant Period.

As at the Latest Practicable Date, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror, or any person acting in concert with it, and any other person. As such, no Shares were held by any person with whom the Offeror or any person acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

Further details on the terms and conditions of the Partial Offer including, amongst other things, procedures for acceptance and settlement, acceptance period and taxation matters, are set out in Appendix I to the Composite Offer Document and in the Form of Approval and Acceptance.

LETTER FROM VC BROKERAGE

Qualifying Shareholders are strongly advised to consider carefully the information as contained in the “Letter from the Board”, the recommendation as contained in the “Letter from the Independent Board Committee” and the advice of Veda Capital as contained in the “Letter from Veda Capital” in the Composite Offer Document, and to consult their professional advisers as they see fit.

Your attention is also drawn to the information as set out in the appendices to the Composite Offer Document which form part of the Composite Offer Document.

Yours faithfully
For and on behalf of
VC Brokerage Limited
Ng Man Hoi, Paul
Chief Operating Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

The Independent Board Committee:

Donald H. Straszheim

Chang Chu Fai Johnson Francis

Yau Chung Hong

Registered office:

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681 GT

Grand Cayman

Cayman Islands

British West Indies

*Head office and principal place
of business in Hong Kong:*

Room 204, 2/F

Wing On Plaza

62 Mody Road

Tsimshatsui East

Kowloon, Hong Kong

10 June 2009

To the Qualifying Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL PARTIAL CASH OFFER BY
VC BROKERAGE LIMITED
ON BEHALF OF CHARMING FUTURE HOLDINGS LIMITED
TO ACQUIRE 121,645,110 OFFER SHARES
IN THE ORDINARY SHARE CAPITAL OF
ROYALE FURNITURE HOLDINGS LIMITED
FROM QUALIFYING SHAREHOLDERS**

We refer to the composite offer and response document issued jointly by the Company and the Offeror to the Shareholders dated 10 June 2009 (the “**Composite Offer Document**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Offer Document have the same meanings when used in this letter.

** For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed as members of the Independent Board Committee to consider and to make a recommendation to you (i) as to whether the Partial Offer is, or is not, fair and reasonable and (ii) as to the approval and acceptance of the Partial Offer, taking into account the advice from Veda Capital.

Your attention is drawn to the “Letter from the Board” as set out on pages 7 to 12 of the Composite Offer Document, the “Letter from VC Brokerage” as set out on pages 13 to 25 of the Composite Offer Document and Appendix I to the Composite Offer Document containing detailed terms of the Partial Offer, and the “Letter from Veda Capital” as set out on pages 28 to 43 of the Composite Offer Document, which contains its advice and recommendation to us in respect of the Partial Offer, as well as the principal factors and reasons for its advice and recommendation.

Having considered the factors and reasons considered by, and the opinion of, Veda Capital as stated in the aforementioned letter of advice, we are of the opinion that the terms of the Partial Offer are fair and reasonable so far as the Qualifying Shareholders are concerned. We recommend the Qualifying Shareholders to approve and accept the Partial Offer.

Yours faithfully,

The Independent Board Committee of
Royale Furniture Holdings Limited

Donald H. Straszheim

Chang Chu Fai Johnson Francis

Yau Chung Hong

Independent non-executive Directors

LETTER FROM VEDA CAPITAL

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee in relation to the Partial Offer, which has been prepared for the purpose of inclusion in the Composite Offer Document.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 1302, 13/F
Takshing House
20 Des Voeux Road Central
Hong Kong

10 June 2009

*To the Independent Board Committee
of Royale Furniture Holdings Limited*

Dear Sirs,

**VOLUNTARY CONDITIONAL PARTIAL CASH OFFER BY
VC BROKERAGE LIMITED
ON BEHALF OF CHARMING FUTURE HOLDINGS LIMITED
TO ACQUIRE 121,645,110 OFFER SHARES
IN THE ORDINARY SHARE CAPITAL OF
ROYALE FURNITURE HOLDINGS LIMITED
FROM QUALIFYING SHAREHOLDERS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to the Partial Offer, details of which are set out in the “Letter from the Board” and the “Letter from VC Brokerage” contained in the Composite Offer Document dated 10 June 2009 to the Qualifying Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Offer Document unless the context requires otherwise.

On 6 May 2009, the Offeror and the Company jointly announced that VC Brokerage, on behalf of the Offeror, intended to make a voluntary conditional partial cash offer to acquire 121,645,110 Offer Shares (representing approximately 26.06% of the existing issued share capital of the Company as at the Latest Practicable Date) from the Qualifying Shareholders.

The Partial Offer is being made at HK\$0.33 per Offer Share. VC Brokerage is making the Partial Offer on behalf of the Offeror. Detailed terms and conditions of the Partial Offer, including the procedures for acceptance, are set out in the Composite Offer Document, in particular in the “Letter from VC Brokerage” of and Appendix I to the Composite Offer Document.

LETTER FROM VEDA CAPITAL

As stated in the Announcement an irrevocable undertaking has been given by each of the Optionholders that (1) he/she shall not exercise the outstanding Share Options held by him/her during the period from the date of the irrevocable undertaking, being 6 May 2009 until the close of the Partial Offer; and (2) should there be a comparable offer for the outstanding Share Options held by him/her, he/she will not participate or accept the offer. As such, no comparable offer for the outstanding Share Options will be made by the Offeror pursuant to Rule 28.9 of the Takeovers Code.

As set out in the circular of the Company dated 30 April 2009, the Directors had resolved to cancel all the 20,614,736 outstanding share options which have been granted under the share option scheme adopted by the Company on 26 April 2002 but not exercised, subject to the approval of the Shareholders at the AGM. Such resolution was approved at the AGM and the 20,614,736 outstanding share options were duly cancelled. Therefore, the irrevocable undertakings given by the option holders of the Company as referred to in the Announcement have become inapplicable for the purpose of the Partial Offer.

As disclosed in the results announcement of the Company dated 20 April 2009, the Board has recommended the payment of a final dividend of HK\$1.0 cent per Share for the year ended 31 December 2008 and the same had been approved by the Shareholders at the AGM, the final dividend will be distributed on or about 12 June 2009 to Shareholders whose names appear on the Register as at the close of business on 5 June 2009. As the closing of the Partial Offer will take place after the aforesaid dividend record date, Qualifying Shareholders as at the dividend record date for payment of the final dividend will be entitled to retain the final dividend, notwithstanding that they accept the Partial Offer.

The Independent Board Committee (comprising all the independent non-executive Directors, namely Mr. Donald H. Straszheim, Mr. Chang Chu Fai Johnson Francis and Mr. Yau Chung Hong) has been formed to advise the Qualifying Shareholders on the terms of the Partial Offer. We have been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Partial Offer and such appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

In formulating our opinion and recommendation, we have relied on the accuracy of the information, opinions and representations contained or referred to in the Composite Offer Document and provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, opinions and representations contained or referred to in the Composite Offer Document were true and accurate at the time when they were made and continued to be true and accurate as at the date of the Composite Offer Document. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Offeror in the Composite Offer Document were reasonably made after due enquiries and considerations. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Composite Offer Document to provide a

LETTER FROM VEDA CAPITAL

reasonable basis for our opinions and recommendations. The Directors have confirmed that having made all reasonable enquiries, to the best of their knowledge, there are no other facts or representations the omission of which would make any statement in the Composite Offer Document, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Group and/or the Offeror.

In formulating our opinion, we have not considered the taxation implications on the Qualifying Shareholders arising from acceptances or non-acceptances of the Partial Offer as these are particular to their individual circumstances. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Partial Offer. In particular, the Qualifying Shareholders who are overseas residents or citizens or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax positions, and if in any doubt, should consult their own professional advisers.

In formulating our opinions, we have made reference to the Comparables (as defined hereafter) which are listed on the main board or Growth Enterprise Market of the Stock Exchange for analysis purpose and we have assumed the truthfulness and accuracy of the information available to us from the Stock Exchange website regarding the Comparables. We have not, however, carried out any independent verification of the information available to us regarding the Comparables, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Comparables. Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Partial Offer and in giving our recommendations to the Independent Board Committee, we have taken into account the following principal factors and reasons:

Historical financial performance and prospects of the Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in investment holding and the design, manufacture and sales of a wide range of home furniture.

(i) Financial year ended 31 December 2007 versus financial year ended 31 December 2006

For the year ended 31 December 2007, the Group recorded turnover of approximately HK\$615.0 million, representing an increase of approximately 25.7% from that for the year ended 31 December 2006 of approximately HK\$489.1 million. Gross profit margin of the Group for the year ended 31 December 2007 was approximately 27.3% whereas the gross profit margin for the previous year was approximately 26.1%. The Group reported a profit attributable to Shareholders of approximately HK\$50.4 million for the year ended 31 December 2007,

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representing a substantial increase of approximately 118.2% from that for the year ended 31 December 2006 of approximately HK\$23.1 million. According to the annual report of the Company for the year ended 31 December 2007, the improved performance of the Group for the year ended 31 December 2007 was mainly attributable to the success of its efforts in brand building, improving production quality and cost effectiveness, creating original designs and expanding its network. The appointment of the Group in March 2007 as the Official Home Furniture Exclusive Supplier for the 2008 Beijing Olympics was one of the most significant achievements the Group made during the year ended 31 December 2007. The Group supplied all the home furniture, over 100,000 pieces, including beds, wardrobes, tables and chairs, etc., for the Olympic Village in Beijing.

(ii) *Financial year ended 31 December 2008 versus financial year ended 31 December 2007*

For the year ended 31 December 2008, the Group recorded turnover of approximately HK\$790.9 million, representing an increase of approximately 28.6% from that of the year ended 31 December 2007 of approximately HK\$615.0 million. Although cost of sales increased to approximately HK\$549.1 million for the year ended 31 December 2008, representing an increase of approximately 22.87% from approximately HK\$446.8 million for the previous year, such increase was less than the increase in turnover of the Group. As such, gross profit margin of the Group for the year ended 31 December 2008 was approximately 30.6% whereas the gross profit margin for the previous year was approximately 27.3%, the increase of 3.3 percentage points in gross profit margin was mainly due to the higher profit margin of Beijing 2008 Olympic Games. The gross profit margin, without the effect of Olympic project, was approximately 26.5% which was 0.8 percentage point less than that for the previous year. Due to the main results of (i) increase in selling and distribution costs to approximately HK\$195.1 million from approximately HK\$97.9 million for the previous year; and (ii) a write-off of goodwill relating to the sofa production companies and four self operating shops acquired by the Group in the aggregate amount of approximately HK\$111.7 million given their fair values were lower than their carrying values as at 31 December 2008, which was made according to Hong Kong Accounting Standard 36 “Impairment of Assets”, the Group recorded a loss attributable to the Shareholders of approximately HK\$89.5 million whereas the Group recorded a net profit of approximately HK\$52.3 million for the year ended 31 December 2007. As explained by the management of the Company, for the substantial increase in selling and distribution costs of approximately HK\$97.3 million for the year ended 31 December 2008, approximately HK\$70 million of which were related to the expenses generated in relation to 2008 Beijing Olympics Games while the rest of approximately HK\$27.3 million were recurring expenses. The write-off of goodwill was a one-off event and the Company does not expect to write back such goodwill in the near future. As stated in the annual report of the Company for the year ended 31 December 2008, such write-off of goodwill did not result in any cash outflow of the Group or cause any negative effect on the Group’s liquidity position as at 31 December 2008. By excluding the write-off of goodwill, the Group would have recorded a profit (the “**Adjusted Profit**”) of approximately HK\$22.1 million. Having said that, the Adjusted Profit for the year ended 31 December 2008 still represented a plunge of approximately 56.1% from the net profit for the previous year.

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(iii) Prospects and outlook

Since the second half of 2008 when the global financial crisis started to spread across economies, enterprises all over the world have had to face severe challenges. The economies of the US, Europe and Japan were sent into recession, and economic growth also slowed down in the PRC. For the year ended 31 December 2008, approximately 92.4% of the turnover of the Group was generated in the PRC and approximately 7.6% were generated elsewhere in Asia, Australia, Africa, Europe and the Middle East. Given the economic slow down in the PRC, it is conceived that the business prospects of the Group will be inevitably affected. The furniture manufactured and distributed by the Group are for residential use and are targeted at mid high-ended customers. In the first quarter of 2009, the PRC property market continued to exhibit weakened performance as the global financial turmoil worsened. Financial concerns have caused many corporations to cut operation costs and housing allowances. With demand for housing contracted in the PRC, demand for furniture has also been affected adversely. Looking forward, the key driver for the sale of furniture of the Group will be a result of improvement in the PRC economy and we share the view of the Directors that whether the Chinese economy is going to resume desired growth depends very much on the ability of the government to stimulate domestic consumption and investment. Given (i) the operating environment of the Group has turned unfavourable in face of the slowing down of the PRC economy as affected by the global financial crisis as detailed above; (ii) the decrease in gross profit margin if excluding the impact from 2008 Beijing Olympics Game for the year ended 31 December 2008 and the increase in recurring costs, we agree that the Group will continue to operate in a challenging environment under the currently very volatile market in the near to medium term.

(iv) Reasons for the Partial Offer

As stated in the “Letter from VC Brokerage”, the Offeror believes that an increased shareholding in the Company, which may result from the Partial Offer, would allow Mr. Tse Kam Pang, currently a substantial Shareholder and Chairman of the Company, to strengthen his relationship with the Group for effective implementation of the business plans of the Group for the future development of the Group under his stewardship. The Directors also believe that the Partial Offer would signify Mr. Tse’s commitment to the Group, thereby strengthening the Group’s overall relationships with its potential lenders, customers, suppliers and employees, in view of the difficult time amidst the global financial turmoil. As stated in the Letter from VC Brokerage, the Partial Offer would also offer an opportunity to those Shareholders who wish to realize part of their investment to do so without having to incur the brokerage fees, transaction levies and trading fees which are customarily payable when disposing of Shares in the open market, whilst retaining the balance of their equity interest in the Company in order to participate in the future growth of the Group. However, as stated in the section headed “Prospects and outlook”, we agree that the Group will continue to operate in a challenging environment under the currently very volatile market in the near to medium term. We have enquired the Offeror the reason for making the Partial Offer instead of a general offer. The Offeror confirmed that it would like to maintain the listing status of the Company and it does not intend to privatise the Company.

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Furthermore, it does not want to take the risk of placing down the Shares should the minimum public float of the Company not be maintained as in the case of general offer. The Offeror considers that it could maintain a majority control of the Company by making the Partial Offer.

On the basis that the Partial Offer becomes unconditional, the Offeror and parties acting in concert with it will hold an aggregate of 51% in the Company. It is not the intention of the Offeror and parties acting in concert with it to privatise the Company. In view of the low liquidity of the Shares throughout the past year, the Partial Offer provides an even-handed treatment to all Qualifying Shareholders to realize their investments in the Company. We agree that by increasing its interests in the Company, the Offeror and parties acting in concert with it demonstrate further unreserved commitment in the Company. The Directors believes that the Partial Offer would help enhance and foster business relationship and confidence in the Group with lenders, business partners, suppliers, customers and employees all alike, which we consider is in the interests of the Company and the Qualifying Shareholders.

The Partial Offer

Pursuant to Rule 28.1 of the Takeovers Code, the Partial Offer is subject to the consent of the Executive. Application for such consent has been made to the Executive and the Executive's consent to the Partial Offer has been granted, under Rule 28.1 of the Takeovers Code. VC Brokerage, on behalf of the Offeror, is making the Partial Offer on the following basis:

For each Offer Share HK\$0.33 in cash

The Offer Price of HK\$0.33 for each Offer Share represents:

- (a) a discount of approximately 1.49% to the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 1.49% to the average closing price of HK\$0.335 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 4.62% to the average of the closing price of approximately HK\$0.346 per Share for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 30.53% to the closing price of HK\$0.475 per Share as quoted by the Stock Exchange on the Latest Practicable Date; and
- (e) a discount of approximately 65.63% to the audited consolidated net asset value of approximately HK\$0.96 per Share as at 31 December 2008.

The Offeror cannot accept more, or less, than 121,645,110 Offer Shares under the Partial Offer. The 121,645,110 Offer Shares represents approximately 26.06% of the existing issued share capital of the Company of 466,761,000 Shares and approximately 34.72% of 350,358,000 Shares held by the Qualifying Shareholders (being 466,761,000 Shares in issue less the 116,403,000 Shares held by the Offeror and parties acting in concert with it) as at the Latest Practicable Date.

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In order to simplify the process of determining the number of Offer Shares to be taken up by the Offeror, the Offeror has adopted the common pool method as prescribed in Practice Note 1 to the Takeovers Code, instead of the share register method as set out in the Announcement, to make the Partial Offer. Under the common pool method, there will be no record date to determine the assured entitlement for the Qualifying Shareholders, and hence a Qualifying Shareholder will not be assured as to the number of Offer Shares being accepted by the Offeror if he/she tenders the Offer Shares.

The Offer Shares tendered by an Accepting Shareholder will be taken up by the Offeror in accordance with the following formula:

$$\frac{A}{B} \times C$$

A = 121,645,110 Offer Shares (being the total number of Offer Shares for which the Partial Offer is made)

B = Total number of Shares tendered under the Partial Offer

C = The number of Shares tendered by the relevant Qualifying Shareholder

Qualifying Shareholders may accept the Partial Offer in respect of some or all of their shareholding. In any event, the number of Offer Shares taken up by the Offeror from each Qualifying Shareholder will not exceed the number of the Offer Shares tendered by such Qualifying Shareholder. In addition, it is possible that if a Qualifying Shareholder tenders all of his/her Offer Shares to the Offeror under the Partial Offer, not all of such Offer Shares will be taken up by the Offeror. Fractions of Offer Shares will not be taken up by the Offeror under the Partial Offer and accordingly, the number of Offer Shares that the Offeror will take up from each Qualifying Shareholder in accordance with the above formula will be rounded up or down to the nearest whole number at the discretion of the Offeror, which will be conclusive and binding on all Qualifying Shareholders.

Further terms and conditions of the Partial Offer, including the procedures for acceptance, are set out in the “Letter from VC Brokerage” of and Appendix I to the Composite Offer Document.

Background of the Offeror and its intention regarding the Group

(a) Information on the Offeror

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Tse Kam Pang, the Chairman of the Company and an executive Director. Mr. Tse Kam Pang is also the sole director of the Offeror.

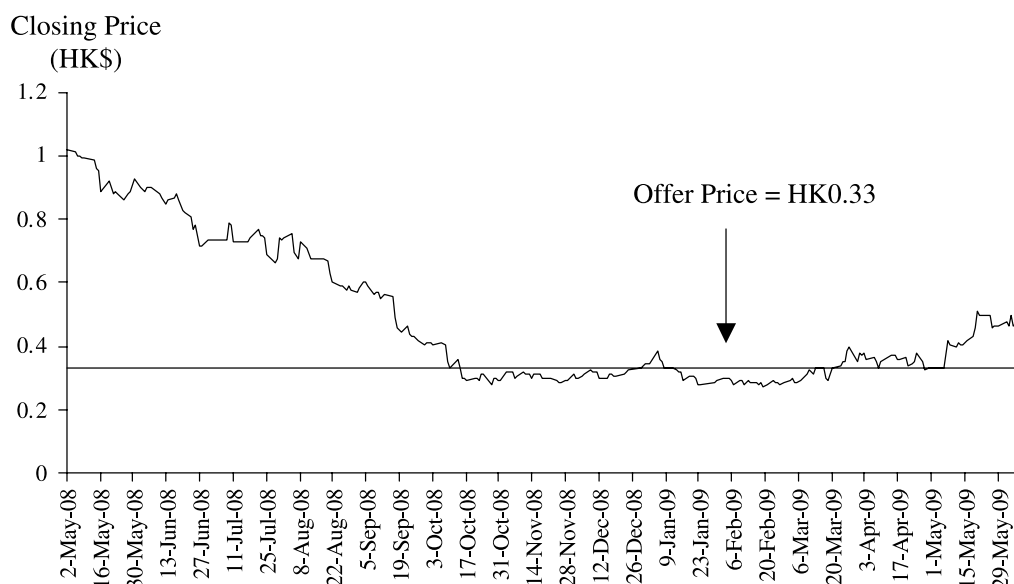
(b) Intention of the Offeror

As stated in the “Letter from VC Brokerage” and “Letter from the Board”, it is the intention of the Offeror to continue the existing businesses of the Group and not to introduce any major changes to the businesses of the Group. The Offeror also intends that the employment of the employees of the Group will be continued and the fixed assets of the Group will not be redeployed as a result of the Partial Offer. The Offeror intends to maintain the listing status of the Company on the Stock Exchange upon the completion of the Partial Offer. As such, we consider that there should not be any material changes on the business operations and the listing status of the Group immediately following the close of the Partial Offer.

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Historical Share price performance

The graph below illustrates the closing price levels of the Shares during the period from 2 May 2008 (being the 12 calendar months period prior to the Last Trading Day) to the Latest Practicable Date (the “**Review Period**”).



Note: Trading of the Shares was suspended on 15 January, 5 and 6 May 2009.

Source: website of the Stock Exchange (www.hkex.com.hk)

As can be seen from the pricing chart above, closing price of the Shares kept decreasing from the highest closing price of HK\$1.017 on 2 May 2008 to mid-October 2008, which is in line with the general decrease in the stock market in Hong Kong as reflected by the closing Hang Seng Index during the same period. Since mid-October 2008, the drop in closing prices stabilized and fluctuated between the range of HK\$0.275 to HK\$0.41 until the Last Trading Day. As such, we consider it more appropriate to make reference to the closing price of the Shares during the period from 2 October 2008 up to and including the Latest Practicable Date (the “**7-Month Period**”) with respect to the Offer Price as comparison. During the 7-Month Period, the average of the closing price of the Shares was approximately HK\$0.337 per Share.

On the Last Trading Day when trading of the Shares was suspended pending the release of the Announcement, the Shares closed at HK\$0.335 per Share. Upon resumption of trading of the Shares on 7 May 2009 after release of the Announcement, closing price of the Shares surged to HK\$0.42 per Share and further increased thereafter and until the Latest Practicable Date to HK\$0.475 so that the Offer Price represents a discount of approximately 30.53% to the closing price on the Latest Practicable Date, implying that the market reacted positively to the Partial Offer. However, we would like to remind the Qualifying Shareholders that although the Offer Price is below the closing price of the Shares since the Last Trading Day until the Latest Practicable Date, given the recent unstable conditions in the Hong Kong stock market, there is no guarantee that the trading price of the Shares will sustain

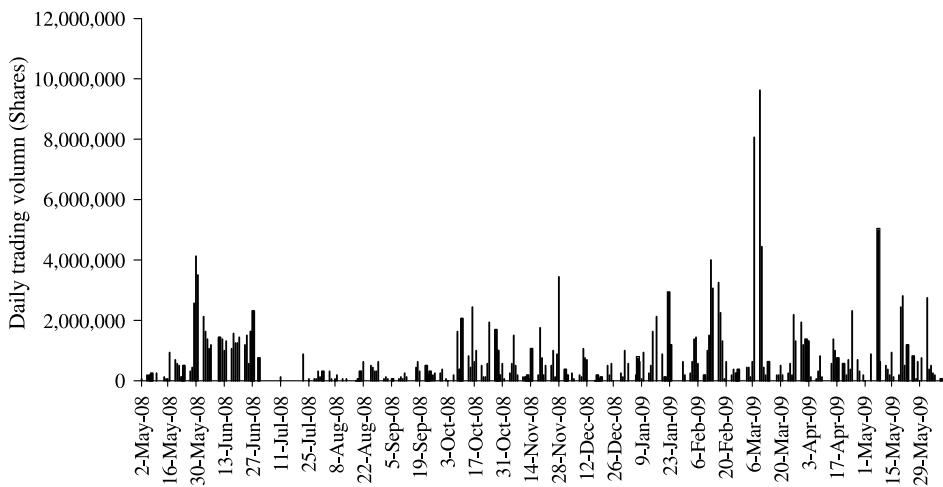
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at the level of closing prices on or around the Latest Practicable Date and be higher than the Offer Price during and after the Offer Period. The Qualifying Shareholders, in particular those who may wish to realize their investments in the Shares, are thus reminded to closely monitor the market price of the Shares during the Offer Period. Furthermore, despite the discount represented by the Offer Price to the closing price of the Shares as at the Latest Practicable Date, given the low liquidity of the Shares during the Review Period (as detailed in the section headed “Liquidity of the Shares” below), we would like to remind the Qualifying Shareholders who may wish to realize their investments in the Shares that they might not be able to do so, especially those with sizeable shareholdings, in the open market, without adversely affecting the market price level of the Shares. Thus, the Partial Offer represents an alternative for the Qualifying Shareholders who would like to realize their investments in the Shares.

Given (i) the Offer Price of HK\$0.33 per Share is only at a slight discount of approximately 2.17% to the average closing price of approximately HK\$0.337 per Share during the 7-Month Period; (ii) a slight discount of approximately 1.49% to the closing price of the Shares on the Last Trading Day; (iii) low liquidity of the Shares during the Review Period; and (iv) the recent unstable conditions in the Hong Kong stock market so that there is no guarantee that the trading price of the Shares will sustain at the level of closing prices on or around the Latest Practicable Date and be higher than the Offer Price during and after the Offer Period, we are of the view that the Offer Price is fair and reasonable to the Qualifying Shareholders.

Liquidity of the Shares

The graph below plotted the daily trading volume of the Shares and the table below set out the average daily number of Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital and the number of issued Shares held by the Shareholders other than the Offeror and parties acting in concert with it as at the Latest Practicable Date respectively during the Review Period.



Note: Trading of the Shares was suspended on 15 January, 5 and 6 May 2009.

Source: website of the Stock Exchange (www.hkex.com.hk)

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	Average daily trading volume	Percentage to the total number of issued Shares <i>(Note 1)</i>	Percentage to the number of issued Shares held by the Shareholders other than the Offeror and parties acting in concert with it <i>(Note 2)</i>
	<i>(Shares)</i>	<i>(%)</i>	<i>(%)</i>
May 2008	771,200	0.1652	0.2201
June 2008	1,347,700	0.2887	0.3847
July 2008	72,727	0.0156	0.0208
August 2008	216,947	0.0465	0.0619
September 2008	205,714	0.0441	0.0587
October 2008	772,571	0.1655	0.2205
November 2008	676,098	0.1448	0.1930
December 2008	498,457	0.1068	0.1423
January 2009	744,778	0.1596	0.2126
February 2009	1,129,850	0.2421	0.3225
March 2009	1,527,297	0.3272	0.4359
April 2009 (including the Last Trading Day on 4 May 2009)	657,286	0.1408	0.1876
May 2009 (since resumption of trading of the Shares)	1,064,625	0.2281	0.3039
June (up to and including the Latest Practicable Date)	677,000	0.1450	0.1932
Since resumption on 7 May 2009 until the Latest Practicable Date	958,909	0.2054	0.2737

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Notes:

1. Based on 466,761,000 Shares in issue as at the Latest Practicable Date.
2. Based on 350,358,000 issued Shares held by the Shareholders other than the Offeror and parties acting in concert with it as at the Latest Practicable Date.
3. Trading of the Shares was suspended on 15 January, 5 and 6 May 2009.

Source: website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the table above, the trading volume of the Shares from the beginning of the Review Period to the Last Trading Day had been thin and was in the range of approximately 0.1068% to approximately 0.3272% as to the total number of issued Shares as at the Latest Practicable Date and approximately 0.1423% to approximately 0.4359% as to the total number of the Shares held by Shareholders other than the Offeror and parties acting in concert with it as at the Latest Practicable Date. The average daily trading volume of Shares since 7 May 2009, being the first trading day after release of the Announcement, until the Latest Practicable Date still remained thin at approximately 0.2054% of the total number of issued Shares and approximately 0.2737% of the number of Shares held by Shareholders other than the Offeror and parties acting in concert with it respectively. Trading volume of the Shares on the Latest Practicable Date amounted to 34,000 Shares, representing 0.0073% of the total number of issued Shares and approximately 0.0097% of the number of Shares held by Shareholders other than the Offeror and parties acting in concert with it respectively.

Given the low liquidity of the Shares, we consider that for the Qualifying Shareholders who may wish to realize their investment in the Company, especially those with relatively sizeable shareholdings, might not be able to do so without having an adverse impact on the market price level of the Shares. Therefore, we consider that the Partial Offer provides a valid exit for the Qualifying Shareholders who would like to realize their investment in the Shares. Nevertheless, Qualifying Shareholders who intend to dispose part or all of their Shares are reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and consider selling their Shares in the open market, instead of accepting the Partial Offer, if the net proceeds from the disposal of such Shares in the open market would exceed that receivable under the Partial Offer.

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Comparable analysis

In assessing the fairness and reasonableness of the Partial Offer, we conducted our search on the Stock Exchange website and have identified all the comparable companies (the “**Comparables**”) (a total of four) which are principally engaged in similar line of business as the Group, i.e. design, manufacture and sales of a wide range of home furniture, as at the Latest Practicable Date and are listed companies on the main board or Growth Enterprise Market of the Stock Exchange. Our findings on the four Comparables are summarized below:

Company name (Stock code)	Principal business	Closing share price as at the Last Trading Day (HK\$)	Market capitalisation as at the Last Trading Day (HK\$ million)	Latest net profit/(loss) prior to the Last Trading Day (HK\$ million)	Dividend for the latest financial year (HK\$)	Price-earnings ratio (times)	Dividend yield (%)
Decca Holdings Limited (997)	Manufacturing and trading of furniture and decoration materials, and interior decoration	1.60	320.00	64.39	0.097	4.97	6.06
FAVA International Holdings Limited (8108)	Direct and indirect retail of household products and others	0.138	165.99	66.14	0	2.51	0
Fulbond Holdings Limited (1041)	Manufacture of wooden products for blockboard, particle board, furniture and plywood-based products and provision of integrated circuit design services	0.02	259.09	(85.13) (Note 4)	0	Not applicable since loss making	0
Samson Holding Ltd. (531)	Manufacturing and trading of wooden furniture	0.87	2,652.95	(143.14)	0.0972	Not applicable since loss making	11.17
					Highest	4.97	11.17
					Lowest	2.51	0
					Average	3.74	4.31
Partial Offer with the Offer Price of HK\$0.33 per Offer Share		0.33	154.03 (Note 1)	22.15 (Note 2)	0.022	6.95 (Note 3)	6.67

Notes:

- Valuation of the Company using the Offer Price based on 466,761,000 Shares in issue as at the Latest Practicable Date.
- Represents the Adjusted Profit.
- Based on the ratio of the Offer Price to the Adjusted Profit per Share.
- Excluded the impairment loss recognized in respect of goodwill.

Source: website of the Stock Exchange (www.hkex.com.hk)

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(a) Price-earnings ratio

Price-earnings ratio is one of the most commonly used benchmarks for valuing a company. The Company was loss-making for the year ended 31 December 2008 and was mainly due to, amongst others, a one-off write-off of goodwill which did not result in any cash outflow of the Group or cause any negative effect on the Group's liquidity position as at 31 December 2008. Such details are set out in the section headed "Historical financial performance and prospects of the Group" above. By excluding the write-off of such goodwill, the Group would have recorded the Adjusted Profit (as defined under the section headed "Historical financial performance and prospects of the Group") of approximately HK\$22.1 million. We consider the use of the Adjusted Profit in arriving at the price-earnings ratio represented by the Offer Price a meaningful comparison basis with the price-earnings ratio of the Comparables (calculated as the market capitalization on the Last Trading Day over the latest net profit of the Comparables). As shown in the above table, the price-earnings ratio of the two valid Comparables (since two of the other Comparables were loss making for their respective latest financial year and one of which was still loss making even by excluding the impairment loss recognized in respect of goodwill) ranged from approximately 2.51 times to approximately 4.97 times. The price-earnings ratio represented by the Offer Price to the Adjusted Profit per Share is approximately 6.95 times which is higher than the range of price-earnings ratios of the two valid Comparables. In this regard, we are of the view that the Offer Price is fair and reasonable to the Qualifying Shareholders.

(b) Dividend yield

The dividend yield of the Comparables ranged from 0% to approximately 11.17% with an average of approximately 4.31%. The dividend yield represented by the Offer Price is approximately 6.67% which is higher than the average of the dividend yield of the Comparables.

We have also looked into the dividend related statistics of the Company for the last five financial years with the summary set out as follows:

For the year ended 31 December	Dividend per Share HK\$	Basic earnings per Share HK\$	Dividend payout ratio %	Average daily closing price of the Share for the year then ended HK\$	Dividend yield using annual average daily closing price %
2004	0.26	0.4506	57.70	4.098	6.34
2005	0.15	0.3096	48.48	5.453	2.75
2006	0.02	0.0888	22.52	2.288	0.87
2007	0.037	0.1704	21.71	1.657	2.23
2008	0.022	0.0710	30.98	0.973	2.26
(Note)					

Note: Based on the Adjusted Profit

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We noticed from the above comparison table that dividend payout ratio has dropped continuously from approximately 57.70% for the year ended 31 December 2004 to approximately 21.71% for the year ended 31 December 2007. Based on the Adjusted Profit, the dividend payout ratio of the Company was approximately 30.98% for the year ended 31 December 2008. The dividend yield calculated using the annual average daily closing price of the Shares showed a “V-shaped” performance of the dividend yield, i.e. the dividend yield dropped from approximately 6.34% for the year ended 31 December 2004 to approximately 0.87% for the year ended 31 December 2006 and subsequently increased to approximately 2.26% for the year ended 31 December 2008. As such, we are of the opinion that the dividend yield of the Company has been fluctuating and there is no assurance that the dividend yield of the Company will remain at the current level.

(c) Net asset value

Based on the Group’s audited consolidated balance sheet as at 31 December 2008, its consolidated net asset value per Share amounted to approximately HK\$0.96. The Offer Price represents a discount of approximately 65.63% to the net asset value per Share.

The Group is involved in manufacturing and production and the analyses on net asset value would, therefore, be of lesser relevance when valuing the Company. The Group’s fixed assets comprising property, plant and equipments and are occupied by the Group as production facilities or office premises for its normal business operations. Disposal of these fixed assets would adversely affect the performance of the Group’s operations and there is no realistic prospect for the Group to dispose of these fixed assets for distribution to the Shareholders. As such, we consider that the value of the Shareholders’ investment in the Company should primarily be determined by its earnings instead of its break-up value. In other words, the true measure of the value of the Shares is not the net asset value per Share but the earnings potential of the Company (please refer to the comparisons made under the section headed “Price-earnings ratio” above). Accordingly, it is well justified to say that such a measurement of the Offer Price against the net asset value per Share would not warrant a determining factor in evaluating the fairness and reasonableness of the terms of the Partial Offer as a whole.

(d) Other partial offers

None of the Comparables was the subject of partial cash offer during the Review Period. The latest partial offer of another listed company (other than the Partial Offer) we could search from the website of the Stock Exchange was around 18 months earlier than the date of the Announcement, which is considered not appropriate for our analysis. In addition, based on market statistics of partial offers transacted in the past, no listed companies engaging in the similar business as that of the Company has conducted a partial offer or alike transaction for our reference and analysis purpose. Accordingly, we do not compare the terms of the Partial Offer with those of other partial offers to assess whether they are fair and reasonable and in the interests of the Company and the Shareholders.

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Recommendation for the Partial Offer

Taking into consideration the above-mentioned principal factors and reasons of the Partial Offer, being:

- (i) even with the increasing turnover and gross profit margins during the three years ended 31 December 2006, 2007 and 2008, the Group turned from net profit positions for the two years ended 31 December 2006 and 2007 to a net loss position of approximately HK\$89.5 million for the year ended 31 December 2008. Even by excluding the write-off of goodwill, Adjusted Profit for the year ended 31 December 2008 was approximately HK\$22.1 million, representing a decrease of approximately 56.1% from the net profit for the previous year;
- (ii) with the operating environment of the Group has turned unfavourable in face of the slowing down of the PRC economy as affected by the global financial crisis and the decrease in gross profit margin if excluding the impact from 2008 Beijing Olympics Game for the year ended 31 December 2008 and the increase in recurring costs, we agree that the Group will continue to operate in a challenging environment under the currently very volatile market in the near to medium term;
- (iii) with demand for housing contracted in the PRC, demand for furniture has also been affected;
- (iv) the Offer Price of HK\$0.33 per Offer Share is at a slight discount of approximately 2.17% to the average closing price of approximately HK\$0.337 per Share during the 7-Month Period;
- (v) the recent unstable conditions in the Hong Kong stock market so that there is no guarantee that the trading price of the Shares will sustain at the level of closing prices on or around the Latest Practicable Date and be higher than the Offer Price during and after the Offer Period;
- (vi) low liquidity of the Shares during the Review Period so that for the Qualifying Shareholders who may wish to realize their investment in the Company, especially those with relatively sizeable shareholdings, might not be able to do so without having an adverse impact on the market price level of the Shares;
- (vii) the price-earnings ratio represented by the Offer Price to the Adjusted Profit per Share is approximately 6.95 times which is higher than the range of price-earnings ratios of the two valid Comparables; and
- (viii) despite the significant discount as represented by the Offer Price to the latest net asset value per Share of the Company, the measurement of the Offer Price against the net asset value per Share would not warrant a determining factor in evaluating the fairness and reasonableness of the terms of the Partial Offer as a whole,

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we are of the opinion that the terms of the Partial Offer are fair and reasonable so far as the Qualifying Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Qualifying Shareholders to approve and accept the Partial Offer.

The Qualifying Shareholders, in particular those who intend to accept the Partial Offer, are reminded to note the recent fluctuation in the Share price after the release of the Announcement, and that there is no guarantee that the current market price will or will not sustain and will or will not be higher than the Offer Price during and after the Offer Period. The Qualifying Shareholders who intend to accept the Partial Offer are reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market, instead of accepting the Partial Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Partial Offer.

Qualifying Shareholders should also note that acceptance of the Partial Offer may result in their holding odd lots of Shares and such odd lots may be more difficult to sell or only be sold at price lower than the market price or require greater transaction cost per Share to sell than Shares in board lots. Qualifying Shareholders should also note that successful matching of the sale and purchase of the odd lots of Shares is not guaranteed and are therefore recommended to consult their advisers in respect of the odd lot trading arrangement.

The Qualifying Shareholders should read carefully the procedures for accepting the Partial Offer detailed in Appendix I to the Composite Offer Document.

Yours faithfully,

For and on behalf of

Veda Capital Limited

Hans Wong

Julisa Fong

Managing Director

Executive Director

VC Brokerage will make the Partial Offer to the Qualifying Shareholders on behalf of the Offeror, on the terms and subject to the conditions as set out in the Composite Offer Document. The principal terms and conditions of the Partial Offer are set out below.

TERMS AND CONDITIONS OF THE PARTIAL OFFER

1. The Offer

The Offeror will take up 121,645,110 Offer Shares at the Offer Price.

2. Conditions

The Partial Offer will be conditional upon fulfillment of all of the following conditions:

- (i) acceptances being received in respect of a minimum of 121,645,110 Offer Shares; and
- (ii) approval by the Qualifying Shareholders (excluding the Offeror and parties acting in concert with it) who are registered as Shareholders in the Register as at the Final Closing Date, holding over 50% of the voting rights not held by the Offeror and parties acting in concert with it, signified by means of ticking a separate box on the Form of Approval and Acceptance, specifying the number of Shares in respect of which the Partial Offer is approved.

In the event that valid acceptances are received for less than 121,645,110 Offer Shares on the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code, the Partial Offer will not proceed and will immediately lapse.

In the event that valid acceptances are received for not less than 121,645,110 Offer Shares on or prior to the First Closing Date, the Offeror will declare the Partial Offer unconditional as to acceptances on or prior to the First Closing Date.

Pursuant to Rule 15.3 of the Takeovers Code, the Final Closing Date would be not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. The Final Closing Date will be a day on or after the First Closing Date and in any event not beyond the 14th day after the First Closing Date, or the First Closing Date if the Partial Offer is not declared unconditional as to acceptances on or before the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**

Pursuant to Rule 15.5 of the Takeovers Code, except with the consent of the Executive, the Partial Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day the Composite Offer Document was posted. Accordingly, the latest date by which the Partial Offer can become unconditional as to acceptances is Friday, 7 August 2009.

3. Number of Offer Shares

The number of Shares to be acquired by the Offeror is 121,645,110 Offer Shares, representing approximately 26.06% of the existing issued share capital of the Company of 466,761,000 Shares and approximately 34.72% of 350,358,000 Shares held by Qualifying Shareholders (being 466,761,000 Shares in issue less the 116,403,000 Shares held by the Offeror and parties acting in concert with it) as at the Latest Practicable Date.

4. Qualifying Shareholders

The Partial Offer is available to all the Qualifying Shareholders, ie. Shareholders other than the Offeror and parties acting in concert with it and Excluded Shareholder(s) (if any).

5. Acceptance

- 5.1 Every Qualifying Shareholder may accept the Partial Offer by the Offeror of any number of his/her Shares at the Offer Price up to his/her entire holding as at the Final Closing Date by submitting to the Share Registrar a duly completed Form of Approval and Acceptance, accompanied by the relevant Share certificates or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof). Each Share may only be tendered for acceptance once.
- 5.2 The Offer Price will be paid in cash.
- 5.3 Seller's ad valorem stamp duty at the rate of HK\$1 for every HK\$1,000 (or part thereof) of the value of the consideration payable in respect of Shares taken up under the Partial Offer will be payable by the Accepting Shareholders. The relevant amount of stamp duty payable will be deducted from the consideration payable under the Partial Offer. The Offeror will arrange for the payment of the stamp duty deducted to the Stamp Office of Hong Kong.

5.4 The submission of a Form of Approval and Acceptance by a Qualifying Shareholder in the manner described in 5.1 above will be deemed to constitute a warranty of such Qualifying Shareholder to VC Brokerage, the Offeror and parties acting in concert with it and the Company that all Shares sold by such Shareholder under the Partial Offer are free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the Final Closing Date.

6. Allocation of the Offer Shares Amongst the Accepting Shareholders

6.1 The Shares tendered by an Accepting Shareholder will be taken up by the Offeror in accordance with the following formula:

$$\frac{A}{B} \times C$$

- A = 121,645,110 Offer Shares (being the total number of Offer Shares for which the Partial Offer is made)
- B = Total number of Shares tendered under the Partial Offer
- C = The number of Shares tendered by the relevant Qualifying Shareholder

In any event, the number of Offer Shares taken up by the Offeror from each Accepting Shareholder will not exceed the number of the Shares tendered by him/her. In addition, it is possible that if a Qualifying Shareholder tenders all of his/her Shares to the Offeror under the Partial Offer, not all of such Shares will be taken up by the Offeror. Fractions of Shares will not be taken up by the Offeror under the Partial Offer and accordingly, the number of Shares that the Offeror will take up from each Accepting Shareholder in accordance with the above formula will be rounded up or down to the nearest whole number at the discretion of the Offeror, which will be conclusive and binding on all Qualifying Shareholders.

6.2 The total number of Offer Shares which will be taken up by the Offeror will not exceed 121,654,110 Shares.

7. Odd Lots

- 7.1 The Shares are currently traded in board lots of 2,000 Shares each. Such board lot size will not be changed as a result of the implementation of the Partial Offer. According to the formula in paragraph 6.1 in this Appendix, an Accepting Shareholder may, as a result of the Partial Offer, hold odd lots of the Shares.
- 7.2 For this purpose, VC Brokerage Limited, whose address is at 28/F The Centrium, 60 Wyndham Street, Central, Hong Kong (Contact person: Ms. Karen Yau; telephone number: (852) 2913 6239) has been appointed by the Offeror as the designated broker to match sales and purchases of odd lot holdings of Shares in the market, on a best effort basis, for a period of six weeks from the close of the Partial Offer to enable Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots of 2,000 Shares. Shareholders should note that the matching of odd lots is not guaranteed.

8. Acceptance Period and Revisions

- 8.1 Unless the Partial Offer has previously been revised or extended with the consent of the Executive, all acceptances of the Partial Offer should be received by the Share Registrar by no later than 4:00 p.m. on Thursday, 2 July 2009, being the First Closing Date. In accordance with Rule 15.3 of the Takeovers Code, when the Partial Offer is declared unconditional as to acceptances, the Partial Offer will be open for acceptance for not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**
- 8.2 The Offeror may introduce new conditions to be attached to any revision to the terms of the Partial Offer, or any subsequent revision thereof but only to the extent necessary to implement the revised Partial Offer and subject to the consent of the Executive.
- 8.3 Since the Partial Offer must remain open for acceptance for 14 days following the date on which the revised offer document is posted, the Offeror will generally not be able to revise the Partial Offer, and must not place itself in a position where it would be required to revise the Partial Offer, in the 14 days ending on the last day the Partial Offer is able to become unconditional as to acceptances, nor must the Offeror place itself in a position where it would be required to revise the Partial Offer if it has made a no increase statement as defined in Rule 18.3 of the Takeovers Code.

- 8.4 If the First Closing Date of the Partial Offer is extended, any reference in the Composite Offer Document and in the Form of Approval and Acceptance to the First Closing Date and the Final Closing Date, except where the context otherwise requires, will be deemed to refer to the closing date of the Partial Offer as so extended.
- 8.5 If the Partial Offer is extended or revised, the announcement of such extension or revision will state the next closing date and the Partial Offer will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to the Shareholders and, unless previously extended or revised, shall be closed on the subsequent closing date. If the Offeror revises the terms of the Partial Offer, all Qualifying Shareholders, whether or not they have already accepted the Partial Offer, will be entitled to accept the revised Partial Offer under the revised terms. The benefit of any revision of the Partial Offer will be available to any Qualifying Shareholders who has/has not previously accepted the Partial Offer. The execution by or on behalf of any Qualifying Shareholder who has previously accepted the Partial Offer on any Form of Approval and Acceptance shall be deemed to constitute acceptance of the revised Partial Offer unless such holder becomes entitled to withdraw his/her acceptance and duly does so in accordance with the Takeovers Code.
- 8.6 In order to be valid for acceptance, a Form of Approval and Acceptance must be duly completed, together with Share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities in respect thereof) (if applicable) which represent the exact number of Shares in respect of which the relevant Qualifying Shareholder intends to tender his/her Shares for acceptances, delivered to and received by the Share Registrar at or before the First Closing Date (or such other time and/or date as the Offeror may, subject to the Takeovers Code, decide), which is currently expected to be 4:00 p.m. on Thursday, 2 July 2009. If the number of Shares tendered by a Qualifying Shareholder is different from the number of Shares stated in the Form of Approval and Acceptance, his/her acceptance will be considered as invalid. In accordance with Rule 15.3 of the Takeovers Code, when the Partial Offer is declared unconditional as to acceptances, the Partial Offer will be open for acceptance for not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code. If Qualifying Shareholders would only like to approve but not accept the Partial Offer, he/she is not required to complete Box B on the Form of Approval and Acceptance.**
- 8.7 The date when all the Conditions are expected to be fulfilled and the Partial Offer is expected to be declared unconditional in all respects is on the Final Closing Date.
- 8.8 **The Final Closing Date cannot be extended to a day beyond the 14th day after the First Closing Date in accordance with Rule 28.4 of the Takeovers Code.**

9. Irrevocable Acceptances

Forms of Acceptance which have been duly completed and received by the Share Registrar will constitute irrevocable acceptance of the Partial Offer, except in the circumstances that the Executive requires that such Accepting Shareholder is granted a right to withdraw in accordance with Rule 19.2 of the Takeovers Code or in compliance with Rule 17 of the Takeovers Code. Rule 19.2 of the Takeovers Code relates to failure to announce the results of the Partial Offer as set out in the section headed “Announcements” in this Appendix and provides that the Executive may require that Accepting Shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements of Rule 19 of the Takeovers Code can be met. Rule 17 of the Takeovers Code relates to the right of such Accepting Shareholder to withdraw his/her acceptance after 21 days from the First Closing Date, if the Partial Offer has not by then become unconditional as to acceptances.

If the Partial Offer is withdrawn with the consent of the Executive in accordance with the Takeovers Code, the Offeror shall, as soon as possible but in any event within 10 days thereof, return the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) in respect of such number of Shares lodged with the Form of Approval and Acceptance to the relevant Accepting Shareholder(s) by ordinary post.

10. General

10.1 Acceptance of the Partial Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and VC Brokerage that the Shares acquired under the Partial Offer are fully paid and sold by any such person or person free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the Final Closing Date.

10.2 The Qualifying Shareholders may approve and/or accept the Partial Offer by completing the Form of Approval and Acceptance in accordance with the instructions set out in the Form of Approval and Acceptance (which constitute part of the terms of the Partial Offer). A Form of Approval and Acceptance may be rejected as invalid if the procedures contained in the Composite Offer Document and in the Form of Approval and Acceptance are not complied with.

- 10.3 The Partial Offer and all acceptances of it, the Form of Approval and Acceptance and all contracts made pursuant to the Partial Offer, and all action taken or made or deemed to be taken or made pursuant to these terms will be governed by and construed in accordance with Hong Kong laws. Delivery of a Form of Approval and Acceptance will constitute submission to the non-exclusive jurisdiction of the Hong Kong courts.
- 10.4 The failure of any person to receive the Composite Offer Document or the Form of Approval and Acceptance will not invalidate any aspect of the Partial Offer. Extra prints of these documents will be available to any Qualifying Shareholder at the office of the Share Registrar during the period from the date of the Composite Offer Document to the Final Closing Date (both days inclusive), between 9:00 a.m. and 4:00 p.m. (Hong Kong time) from Mondays to Fridays (other than public holidays), and on the Stock Exchange's website at www.hkexnews.hk from the day of its publication, together with the Company's website at www.hkroyal.com.
- 10.5 The Offeror reserves the right, subject to any applicable law or regulatory requirements, to amend the Offer Price. In the event of such amendment (which will not, for the avoidance of doubt, include an alteration of the total number of Offer Shares), a supplemental document and new Form of Approval and Acceptance will be despatched to the Qualifying Shareholders. Any revised Partial Offer will be kept open for at least 14 days following the date on which the revised offer document is posted. If in the course of the Partial Offer, the Offeror revises the terms of the Partial Offer, all Qualifying Shareholders, whether they have accepted the Partial Offer or not, will be entitled to the revised terms.
- 10.6 The right of acceptance of the Partial Offer is personal to the Qualifying Shareholder and is not capable of being assigned or renounced in favour of others or otherwise transferred by the Qualifying Shareholders.
- 10.7 All questions as to the number of Offer Shares to be taken by the Offeror, the Offer Price to be paid therefor, or any alteration of such price in accordance with the terms contained herein, and the validity, form, eligibility (including the time of receipt) and acceptance for payment of any acceptance will be determined by the Offeror in its sole discretion, which determination will be final and binding on all of the parties (except as otherwise required under the applicable laws or by the Executive). The Offeror reserves the absolute right to reject any or all acceptances it determines not to be in proper form or the acceptance or payment for which may, in the opinion of the Offeror, be unlawful. The Offeror also reserves the absolute right (provided that this is exercised consistently with

the requirements of the Takeovers Code or otherwise with the Executive's consent) to waive any of the terms or conditions of the Partial Offer, except the Conditions, either generally or in a particular case and any defect or irregularity in the acceptance of any particular Share or any particular holder thereof. An acceptance may be rejected as invalid unless all defects or irregularities have been cured or waived. In the event of a waiver, the consideration under the Partial Offer will not be despatched until after the Form of Approval and Acceptance is completed in all respects and the Share certificate(s), and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) have been received. None of the Offeror, the Company, VC Brokerage, the Share Registrar or any of their respective directors or any other person involved in the Partial Offer is or will be obliged to give notice of any defects or irregularities in acceptances and none of them will incur any liability for failure to give any such notice.

- 10.8 All communications, notices, Form(s) of Approval and Acceptance, Share certificate(s), transfer receipt(s), other document(s) of title (and/or any indemnity or indemnities in respect thereof) and remittances in settlement of Shares acquired under the Partial Offer to be delivered or sent by, to or from any Shareholders will be delivered or sent by, to and from them, or their designated agents, at their own risks and none of the Offeror, the Company, VC Brokerage, the Share Registrar or any of their respective directors or any other person involved in the Partial Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
- 10.9 Should any Qualifying Shareholder require any assistance in completing the Form of Approval and Acceptance or have any enquiries regarding the procedures for tendering and settlement or any other similar aspect of the Partial Offer, he/she may contact the Share Registrar at its hotline at (852) 2980 1333 during the period from the date of the Composite Offer Document to the Final Closing Date (both days inclusive) between 9:00 a.m. and 4:00 p.m. (Hong Kong time) from Mondays to Fridays (other than public holidays).

OVERSEAS SHAREHOLDERS

It is the responsibility of each overseas Shareholder who wishes to accept the Partial Offer to satisfy himself or herself as to the full observance of the laws of the relevant jurisdictions in that connection, including the obtaining of any governmental or other consents which may be required or in compliance with other necessary formalities or legal requirements. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Offeror that the local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

The Company shall give notice of any matter in relation to the Partial Offer to the Shareholders by issuing announcements or advertisements in accordance with its articles of association and, if so given, shall be deemed to have been sufficient for all effective purposes, despite any failure by any overseas Shareholder to receive the same.

PROCEDURE FOR APPROVAL, ACCEPTANCE AND SETTLEMENT**1. General Procedure for Approval and Acceptance**

- 1.1 Whether or not the Qualifying Shareholders accept the Partial Offer, they may approve the Partial Offer AND specify the number of Shares in respect of which they approve the Partial Offer on the Form of Approval and Acceptance. Each Share shall be entitled to ONE vote only. Multiple votes in respect of the same Share will not be taken into account in counting the approval of the Partial Offer. Only ONE Form of Approval and Acceptance will be accepted from each Qualifying Shareholder by the Share Registrar and only ONE vote for each Share will be cast. If a Qualifying Shareholder has put a tick “✓” to indicate his/her approval of the Partial Offer on the Form of Approval and Acceptance but no number of Shares in respect of such approval is specified, the approval will be considered invalid. If a Qualifying Shareholder has put a tick “✓” to indicate his/her approval of the Partial Offer and a number in excess of his/her registered holding of Shares on the Final Closing Date is inserted in respect of such approval on the Form of Approval and Acceptance, his/her approval will be considered as invalid. Therefore, if a Qualifying Shareholder has submitted his/her Form of Approval and Acceptance and that his/her registered holding of Shares on the Final Closing Date will be lower than the number of Shares as specified in the right column of Box A on his/her Form of Approval and Acceptance, he/she is requested to contact the Share Registrar to amend the number of Shares in respect of his/her approval on his/her Form of Approval and Acceptance. Qualifying Shareholders may vote in respect of the total number of Shares held by him/her even though it may be more than the number of Shares tendered for acceptance. To accept and/or approve the Partial Offer, a Qualifying Shareholder should complete the accompanying Form of Approval and Acceptance in accordance with the instructions printed on it, which form part of the terms of the Partial Offer.**
- 1.2 If the Share certificate(s) and/or transfer receipt(s) and/or any transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) (if applicable) in respect of the Shares is/are in the name of the Qualifying Shareholder(s), and he/she wishes to accept the Partial Offer whether in full or in respect**

of part of his/her holding of Shares, he/she should complete and return the accompanying Form of Approval and Acceptance in accordance with the instructions printed in the Composite Offer Document and the instructions printed on the Form of Approval and Acceptance. The instructions in the Composite Offer Document should be read together with the instructions on the Form of Approval and Acceptance (which instructions form part of the terms of the Partial Offer).

- 1.3 In order to be valid, the completed Form of Approval and Acceptance should be forwarded, together with the Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) for the exact number of Shares in respect of which the relevant Qualifying Shareholder wishes to accept the Partial Offer, by post or by hand to the Share Registrar, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in an envelope marked "**Royale Furniture — Partial Offer**" as soon as possible after receipt of the Form of Approval and Acceptance but in any event so as to reach the Share Registrar by no later than 4:00 p.m. (Hong Kong time) on Thursday, 2 July 2009, being the First Closing Date, or such later time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce. If the number of Shares tendered by a Qualifying Shareholder is different from the number of Shares stated in the Form of Approval and Acceptance, his/her acceptance will be considered as invalid. In accordance with Rule 15.3 of the Takeovers Code, when the Partial Offer is declared unconditional as to acceptances, the Partial Offer will be open for acceptance for not less than 14 days after the date on which the Partial Offer is declared unconditional as to acceptances. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**
- 1.4 Unless the Partial Offer is extended or revised in accordance with the Takeover Code, no Form of Approval and Acceptance received after the Final Closing Date will be accepted.
- 1.5 If the Form of Approval and Acceptance is executed by a person other than the registered holder, appropriate evidence of authority (e.g. a grant of probate or certified copy of a power of attorney) must be delivered to the Share Registrar with the completed Form of Approval and Acceptance.
- 1.6 No acknowledgement of receipt of any Form of Approval and Acceptance, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities in respect thereof) (if applicable) will be given.

- 1.7 In relation to any acceptance of the Partial Offer in respect of Shares held in CCASS, the Company reserves the right to make such alterations, additions or modifications to the terms of the Partial Offer as may be necessary or desirable to give effect to any purported acceptance of the Partial Offer, whether in order to comply with the facilities or requirements of CCASS or otherwise, provided such alterations, additions or modifications are consistent with the requirements of the Takeovers Code or are otherwise made with the Executive's consent.
- 1.8 Only one Form of Approval and Acceptance will be accepted from each Qualifying Shareholder by the Share Registrar.

2. Nominee Holdings

- 2.1 If the Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of a Qualifying Shareholder's Shares is/are in the name of a nominee company or some name other than his/her own, and such Qualifying Shareholder wishes to accept the Partial Offer (either in full or in respect of part of his/her holding(s) of Shares), he/she must either:
- (i) lodge the Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) with the nominee company, or other nominee, with instructions authorising it to accept the Partial Offer on his/her behalf and requesting it to deliver the Form of Approval and Acceptance duly completed together with the relevant Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) to the Share Registrar, within such deadline (which may be earlier than the deadline specified under the Partial Offer) as may be stipulated by the nominee; or
 - (ii) arrange for the Shares to be registered in his/her name by the Company through the Share Registrar, and send the Form of Approval and Acceptance duly completed together with the relevant Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) to the Registrar before 4:00 p.m. on the First Closing Date, or such later time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce; or

- (iii) where his/her Shares are deposited in CCASS, instruct his/her broker/custodian bank to authorise HKSCC Nominees Limited to accept the Partial Offer on his/her behalf on or before the deadline set by HKSCC Nominees Limited or any other date as shall be determined by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, that Qualifying Shareholder should check with his/her broker/custodian bank for the timing on processing of his/her instruction, and submit such instruction to his/her broker/custodian bank as required by them; or
 - (iv) if the Shares have been lodged with his Investor Participant Account with CCASS, authorise his/her instruction via the CCASS Phone System or CCASS Internet System not later than one Business Day before the deadline set by HKSCC Nominees Limited or any other date as shall be determined by HKSCC Nominees Limited.
- 2.2 Qualifying Shareholders with such a nominee holding of Shares should ensure that they undertake the above applicable course of action promptly so as to allow their nominee(s) sufficient time to complete the acceptance procedure on their behalf before the First Closing Date.

3. Recent Transfers

If a Qualifying Shareholder has lodged transfer(s) of Shares for registration in his/her name and has not yet received the Share certificate(s) and wishes to accept the Partial Offer, he/she should nevertheless complete the Form of Approval and Acceptance and deliver it to the Share Registrar together with the transfer receipt(s) duly signed by him/her. Such action will be deemed to be an irrevocable authority to the Offeror and/or VC Brokerage and/or any of their respective agent(s) or such other person(s) as any of them may direct for the purpose to collect from the Company or the Share Registrar on his/her behalf the relevant Share certificate(s) when issued and to deliver such Share certificate(s), subject to the terms of the Partial Offer, as if it was/they were delivered to the Share Registrar with the Form of Approval and Acceptance.

4. Lost or Unavailable Share Certificates

- 4.1 If the Share certificate(s), transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost and a Qualifying Shareholder wishes to accept the Partial Offer, the Form of Approval and Acceptance should nevertheless be completed and delivered to the Share Registrar so as to reach the Share Registrar not later than 4:00 p.m. on the First Closing Date and the relevant Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) should be forwarded to the Share Registrar as soon as possible thereafter and in any event not later than 4:00 p.m. on the First Closing Date.

- 4.2 Acceptances of the Partial Offer may, at the discretion of the Offeror subject to the compliance with the Takeovers Code, be treated as valid even if not accompanied by the relevant Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) but, in such cases, the cash consideration due will not be despatched until the relevant Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) (as the case may be) has/have been received by the Share Registrar.
- 4.3 If a Qualifying Shareholder has lost his/her Share certificate(s), transfer receipt(s) and/or any other document(s) of title, he/she should write to the Share Registrar and request a letter of indemnity in respect of the lost Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (as the case may be) which, when completed in accordance with the instructions given, should be returned, together with the Form of Approval and Acceptance and any Share certificate(s), transfer receipt(s) and/or any other document(s) of title which are available, to the Share Registrar either by post or by hand, so to arrive not later than 4:00 p.m. on the First Closing Date. In such cases, the Qualifying Shareholder will be informed of the fees payable to the Share Registrar for which he/she will be responsible.

5. Additional Forms of Acceptance

If a Qualifying Shareholder has lost the accompanying Form of Approval and Acceptance or such original has become unusable, and requires a replacement of such form, he/she should write to the Share Registrar or visit the Share Registrar at its office and request an additional Form of Approval and Acceptance for completion by such Qualifying Shareholder. Alternatively, he/she could download it from the website of the Stock Exchange at www.hkexnews.hk or the Company's website at www.hkroyal.com.

6. Settlement

- 6.1 Provided that the Partial Offer becomes unconditional in all respects and a duly completed Form of Approval and Acceptance, accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) are received by the Share Registrar by not later than 4:00 p.m. on the First Closing Date (or such other time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce) and are in order in all respects and in accordance with the Takeovers Code, the Share Registrar will inform the relevant Accepting Shareholder by ordinary post, at his/her own risks, of a remittance for the amount due to him/her under the Partial Offer and (if applicable) any Share certificate(s) and/or any transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) for Shares not taken up or, if applicable, replaced

Share certificate(s) in respect of the balance of such Shares (taking account of any scaling down of his/her acceptance, stamp duty and the fees payable to the Share Registrar in respect of loss or unavailable Share certificates) in accordance with the authority and provisions contained in the Form of Approval and Acceptance as soon as possible but in any event within 10 days following the close of the Partial Offer. Settlement of the consideration to which any Accepting Shareholder is entitled under the Partial Offer will be implemented in full in accordance with the terms of the Partial Offer (save with respect to payment of seller's ad valorem stamp duty) without regard to any lien, right of set-off, counterclaim, or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Accepting Shareholder.

- 6.2 In the case of any Accepting Shareholder where the number of Shares represented by the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (as the case may be) sent in connection with his/her Form of Approval and Acceptance to the Share Registrar in acceptance of the Partial Offer exceeds 1,000,000 Shares, such Accepting Shareholder may contact the Share Registrar directly to arrange for collection in person at the Share Registrar's office of the remittance due to him/her in respect of the Shares accepted under the Partial Offer (after deducting seller's ad valorem stamp duty due on consideration payable in respect of relevant acceptances of the Partial Offer) and/or any Share certificate(s) representing Shares which are not successfully tendered and/or accepted under the Partial Offer. However, if no such prior arrangement is made with the Share Registrar, the Share Registrar will send the remittance and/or any Share certificate(s) to such Accepting Shareholder at his/her own risk as mentioned in paragraph 6.1.
- 6.3 If the Partial Offer does not become unconditional in all respects, the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (as the case may be) will be returned and/or sent to each Accepting Shareholder (by ordinary post, at that Accepting Shareholder's own risk) as soon as possible but in any event within 10 days of the lapse of the Partial Offer. Where such Accepting Shareholder has sent one or more transfer receipt(s) and in the meantime one or more Share certificate(s) has/have been collected on that Accepting Shareholder's behalf in respect thereof, that Accepting Shareholder will be sent (by ordinary post, at that Accepting Shareholder's own risk) such Share certificate(s) in lieu of the transfer receipt(s).
- 6.4 If the Shares tendered by an Accepting Shareholder have not been taken up by the Offeror in full, the Share certificate(s) or transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (as the case may be) in respect of the balance of such Shares or a replaced certificate therefor will be returned or sent to him/her by ordinary post at his/her own risk as soon as possible but in any event within 10 days following the close of the Partial Offer.

7. New Shareholders

Any new Shareholder may collect a copy of the Composite Offer Document, together with a blank Form of Approval and Acceptance from the Share Registrar at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong during the period from the date of the Composite Offer Document to the Final Closing Date (both days inclusive), between 9:00 a.m. and 4:00 p.m. (Hong Kong time) from Mondays to Fridays (other than public holidays). Such Shareholder may also contact the Share Registrar (through the enquiry general telephone line at (852) 2980 1333) and request a copy of the Composite Offer Document and a blank Form of Approval and Acceptance (as appropriate) to be sent to his/her registered address as recorded in the Register.

EFFECT OF ACCEPTANCE OF THE PARTIAL OFFER BY QUALIFYING SHAREHOLDERS

If a Qualifying Shareholder wishes to accept the Partial Offer, he/she should insert the total number of Shares for which he/she wishes to tender for acceptance of the Partial Offer in Box B of the Form of Approval and Acceptance. If no number is inserted, he/she will be considered not to have accepted the Partial Offer.

Each Qualifying Shareholder by whom, or on whose behalf, a Form of Approval and Acceptance is executed irrevocably undertakes, represents, warrants and agrees to and with the Offeror and VC Brokerage (so as to bind him/her, his/her personal representatives, heirs, successors and assigns) to the effect:

1. Execution

That the execution of the Form of Approval and Acceptance, subject to Rule 19.2 of the Takeovers Code, shall constitute an acceptance by the relevant Qualifying Shareholder of the Partial Offer in respect of the number of the Shares inserted in Box B of the Form of Approval and Acceptance on and subject to the terms and conditions set out or referred to in the Composite Offer Document and the Form of Approval and Acceptance and that, once lodged, such acceptance shall be irrevocable, unless withdrawn in accordance with the Takeovers Code.

2. Representations and Warranties

- (a) That he/she has full power and authority to tender, sell, assign and transfer all the Shares (together with all rights accruing or attaching thereto) specified in such Form of Approval and Acceptance under the Partial Offer and that the Shares are fully paid and free from all liens, charges, options, claims, equities, adverse interests, third party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the Final Closing Date; and

- (b) that if he/she is a resident or a citizen of a jurisdiction outside Hong Kong, he/she has fully observed any applicable legal or other requirements and that the Partial Offer (and any revision or extension of the Partial Offer) may be accepted by him/her lawfully under the laws of the relevant jurisdiction.

3. Appointment and Authority

That the execution of the Form of Approval and Acceptance constitutes:

- (a) the irrevocable appointment of any director or officer of the Offeror or VC Brokerage, or such other person as any of them may direct, as such Qualifying Shareholder's agent ("Agent"); and
- (b) an irrevocable instruction to the Agent to complete and execute the Form of Approval and Acceptance and/or any other document at the Agent's discretion on behalf of the person accepting the Partial Offer and to do any other acts or things as may in the opinion of the Agent be necessary, expedient or desirable for the purpose of the Offeror to acquire some or all of the Shares (as the Offeror may in its absolute discretion determine in accordance with the formula as set out under paragraph 6.1 in this Appendix) in respect of which such person has accepted the Partial Offer.

4. Undertakings

That by executing the Form of Approval and Acceptance, he/she:

- (a) agrees to ratify and confirm each and every act or thing which may be done or effected by the Offeror or any Agent in the proper exercise of its or his/her powers and/or authorities under the terms of the Partial Offer;
- (b) undertakes to deliver to the Share Registrar the Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) in respect of the Shares for which the Partial Offer is accepted, or an indemnity or indemnities acceptable to the Offeror in lieu thereof, or to procure the delivery of such document(s) to such person as soon as possible thereafter and, in any event, no later than 4:00 p.m. on the First Closing Date (or such later date as the Offeror may, subject to the Takeovers Code, decide and announce);
- (c) accepts that the provisions of the Form of Approval and Acceptance and the other terms and conditions in the Composite Offer Document are deemed to be incorporated into the terms and conditions of the Partial Offer;

- (d) undertakes to execute any further documents, take any further action and give any further assurances which may be required in connection with his/her acceptance of the Partial Offer as the Offeror may consider to be necessary, expedient or desirable in accordance with the Takeover Code, including without limitation, to acquire any Shares in respect of which he/she has accepted the Partial Offer free from all liens, charges, options, claims, equities, adverse interests, third parties rights or encumbrances whatsoever and together with all rights accruing attaching thereto on or after the Final Closing Date and/or to perfect any of the authorities expressed to be given hereunder;
- (e) authorises the Offeror or the Agent to procure the despatch by post of the consideration to which he/she is entitled at his/her risk to the address of the registered Shareholder or the first-named of joint registered Shareholders on the Register or, if different, to the name and address of the person as specified on the Form of Approval and Acceptance; and
- (f) submits to the non-exclusive jurisdiction of the courts of Hong Kong in relation to all matters arising out of or in connection with the Partial Offer or the Form of Approval and Acceptance.

TAXATION

Qualifying Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Partial Offer. It is emphasized that none of the Offeror, the Company, its ultimate beneficial owners and parties acting in concert with any of them, VC Brokerage, VC Capital, Veda Capital, the Share Registrar or any of their respective directors or any persons involved in the Partial Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Partial Offer.

ANNOUNCEMENTS

The announcement on the results of the Partial Offer will be issued by the Offeror on the Stock Exchange's website by 7:00 p.m. on the day when the Partial Offer has become or been declared unconditional as to acceptances (if such date is prior to the First Closing Date), on the First Closing Date and on the Final Closing Date. Such announcement will comply with the disclosure requirements under Rule 19.1 and Note 7 to Rule 19 of the Takeovers Code and will include, amongst other things, the results of the Partial Offer, and details of the way in which each Accepting Shareholder's pro rata entitlement was determined. In any announcement of an extension of the Partial Offer, either the next closing date must be stated or, if the Partial Offer is unconditional as to acceptances, a statement may be made that the Partial Offer will remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code. **The Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date pursuant to Rule 28.4 of the Takeovers Code.**

Each of the announcements shall specify the total number of Shares:-

- (a) for which acceptances of the Partial Offer have been received;
- (b) held, controlled or directed by the Offeror or parties acting in concert with it before the Offer Period; and
- (c) acquired or agreed to be acquired during the Offer Period by the Offeror or any parties acting in concert with it.

Each of the announcements must include the level of acceptances or the number or percentage of Accepting Shareholders in compliance with Note 2 to Rule 19 of the Takeovers Code.

Each of the announcements must include the details of the way in which each of Accepting Shareholder's pro rata entitlement was/is to be determined in compliance with Note 7 to Rule 19 of the Takeovers Code.

Each of the announcements must include details of any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

Each of the announcements shall include the percentages of the relevant classes of share capital, and the percentage of voting rights, represented by these numbers.

As required under the Takeovers Code, all announcements in relation to the Partial Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, will be published on the websites of the SFC, the Stock Exchange and the Company.

INTERPRETATION

1. A reference in the Composite Offer Document to a Qualifying Shareholder includes a reference of a person(s) who, by reason of an acquisition or transfer of Shares, is entitled to execute a Form of Approval and Acceptance and in the event of more than one person executing a Form of Approval and Acceptance, the provisions of the Composite Offer Document apply to them jointly and severally.
2. A reference in the Composite Offer Document and the Form of Approval and Acceptance to the masculine gender includes the feminine and neuter genders, and a reference to the singular includes the plural, and vice versa.

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

(A) SUMMARY FINANCIAL INFORMATION

The following is a summary of the financial results of the Group for each of three years ended 31 December 2008 as extracted from the respective annual reports of the Company.

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	<u>790,900</u>	<u>615,033</u>	<u>489,143</u>
(Loss)/Profit before tax	(87,238)	54,403	23,411
Tax	<u>(2,302)</u>	<u>(2,091)</u>	<u>(307)</u>
(Loss)/Profit of the year	<u>(89,540)</u>	<u>52,312</u>	<u>23,104</u>
Attributable to:			
Equity holders of the parent	(89,626)	50,406	23,104
Minority interests	<u>86</u>	<u>1,906</u>	<u>–</u>
	<u>(89,540)</u>	<u>52,312</u>	<u>23,104</u>
Proposed final dividend	4,668	7,779	5,848
Proposed final dividend per Share (<i>HK\$</i>)	<u>0.010</u>	<u>0.025</u>	<u>0.020</u>
(Loss)/Earnings per share attributable to ordinary equity holders of the parent			
Basic (<i>HK\$</i>)	<u>(0.2880)</u>	<u>0.17040</u>	<u>0.0888</u>
Diluted (<i>HK\$</i>)	<u>N.A.</u>	<u>0.16750</u>	<u>0.0885</u>

There were neither extraordinary nor exceptional item during each of the three years ended 31 December 2008.

The reports of auditors of the Company, Ernst & Young, for the three years ended 31 December 2008 do not contain any qualification.

(B) AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following is the full text of the audited financial statements and the audited balance sheet of the Group extracted from the annual report of the Company for the year ended 31 December 2008.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED BALANCE SHEET***31 December 2008*

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Note	Attributable to equity holders of the parent							Minority interests	Total equity
		Issued share capital	Share premium account	Share option reserve	Asset revaluation reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note 28)								
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	52,312
Total income and expense for the year		-	-	-	-	38,450	50,406	-	88,856	90,762
Final 2006 dividend declared		-	-	-	-	-	-	(5,848)	(5,848)	(5,848)
Issue of shares		4,286	63,786	-	-	-	-	-	68,072	68,072
Share option exercised		820	11,455	(3,124)	-	-	-	-	9,151	9,151
Equity-settled share option expense		-	-	2,543	-	-	-	-	2,543	2,543
Acquisition of a subsidiary		-	-	-	-	-	-	-	2,536	2,536
Interim 2007 dividend declared	12	-	-	-	-	-	(3,509)	-	(3,509)	(3,509)
Proposed final 2007 dividend	12	-	-	-	-	-	(7,779)	7,779	-	-
At 31 December 2007		31,117	177,587*	10,279*	20,150*	57,044*	229,873*	7,779	533,829	538,271
At 1 January 2008		31,117	177,587	10,279	20,150	57,044	229,873	7,779	533,829	538,271
Revaluation of land and buildings		-	-	-	(20,150)	-	-	-	(20,150)	(20,150)
Exchange realignment		-	-	-	-	36,770	-	-	36,770	36,770
Total income and expense for the year recognised directly in equity		-	-	-	(20,150)	36,770	-	-	16,620	16,620
Profit for the year		-	-	-	-	-	(89,626)	-	(89,626)	(89,540)
Total income and expense for the year		-	-	-	(20,150)	36,770	(89,626)	-	(73,006)	(72,920)
Final 2007 dividend declared		-	-	-	-	-	-	(7,779)	(7,779)	(7,779)
Equity-settled share option expense		-	-	423	-	-	-	-	423	423
Interim 2008 dividend declared	12	-	-	-	-	-	(3,734)	-	(3,734)	(3,734)
Proposed final 2008 dividend	12	-	-	-	-	-	(4,668)	4,668	-	-
At 31 December 2008		31,117	177,587*	10,702*	-*	93,814*	131,843*	4,668	449,733	454,261

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED CASH FLOW STATEMENT***Year ended 31 December 2008*

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

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

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

BALANCE SHEET*31 December 2008*

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

NOTES TO FINANCIAL STATEMENTS*31 December 2008***1. CORPORATE INFORMATION**

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

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

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

2.1 BASIS OF PREPARATION

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

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

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

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

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)***(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets** *(Continued)*

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

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

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

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

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

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

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

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

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

HKFRS 1 and HKAS 27 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate¹</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment - Vesting Conditions and Cancellations¹</i>
HKFRS 1 (Revised)	<i>First-time Adoption of HKFRS²</i>
HKFRS 3 (Revised)	<i>Business Combinations²</i>
HKFRS 7 Amendments	<i>Amendment to HKFRS 7 Financial instruments: Disclosure - Improving Disclosures about Financial Instruments¹</i>
HKFRS 8	<i>Operating Segments¹</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements¹</i>
HKAS 23 (Revised)	<i>Borrowing Costs¹</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements²</i>
HKAS 32 and HKAS 1 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation¹</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items²</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	<i>Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement - Embedded Derivatives⁶</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes³</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate¹</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation⁴</i>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners²</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers⁵</i>

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

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ Apply prospectively to transfers of assets from customers received on or after 1 July 2009

⁶ Effective for annual periods beginning on or after 30 June 2009

* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Subsidiaries**

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

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

Associates

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Goodwill**

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

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

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

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

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

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

Impairment of non-financial assets other than goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Impairment of non-financial assets other than goodwill** *(Continued)*

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

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Property, plant and equipment and depreciation** *(Continued)*

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

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

Non-current assets and disposal groups held for sale

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

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

Intangible assets (other than goodwill)

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

Licence rights of trademarks

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Intangible assets (other than goodwill)** *(Continued)***Research and development costs**

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

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

Leases

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investments and other financial assets** *(Continued)*

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investments and other financial assets** *(Continued)****Fair value***

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Impairment of financial assets** *(Continued)****Available-for-sale financial assets***

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

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Financial liabilities at amortised cost (including interest-bearing bank loan)**

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

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

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Provisions**

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Income tax** *(Continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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.

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. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (“market conditions”), if applicable.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(Continued)***Share-based payment transactions** *(Continued)*

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.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Foreign currencies**

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)***Estimation uncertainty**

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was nil (2007: HK\$111,688,000). More details are given in note 16.

Write-down of inventories

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

Impairment of trade receivables

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

Impairment of items of property, plant and equipment

The carrying amounts of the items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4. The recoverable amount of the property, plant and equipment is the higher of net selling price and value in use, and the calculations of which involve the use of estimates.

4. SEGMENT INFORMATION

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

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

- (a) Franchise operation segment engages in the sale of home furniture through franchise operation; and
- (b) Self-operating shops segment engages in the sale of home furniture through self-operating shops;

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

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

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

Year ended 31 December 2008

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

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

As at 31 December 2008

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

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2007

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

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

As at 31 December 2007

	Franchise operation <i>HK\$'000</i>	Self-operating shops <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets and liabilities			
Segment assets	649,959	111,846	761,805
Interests in associates			31,067
Unallocated assets			55,388
Total assets			848,260
Segment liabilities	172,817	15,845	188,662
Unallocated liabilities			121,327
Total liabilities			309,989
Other segment information:			
Depreciation and recognition	18,879	6,519	25,398
Unallocated amortisation			820
			26,218
Goodwill	47,044	64,644	111,688
Capital expenditure	92,219	3,516	95,735

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. (LOSS)/PROFIT BEFORE TAX

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

		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of goods sold		549,051	446,837
Depreciation of items of property, plant and equipment	14	40,505	24,971
Recognition of prepaid land lease payments	15	589	427
Amortisation of intangible assets*	17	1,209	820
Loss on disposal of items of property, plant and equipment**		502	5,183
Loss on disposal of assets held for sales**		2,293	—
Research and development costs*		7,742	6,940
Minimum lease payments under operating leases:			
Land and buildings		41,553	28,180
Auditors' remuneration		1,880	1,880
Employee benefit expense:			
(excluding directors' remuneration (note 8))			
Wages and salaries		82,566	78,280
Equity-settled share option expense		423	2,543
Pension scheme contributions		4,838	4,084
		<u>87,827</u>	<u>84,907</u>
Donation**		2,914	1,641
Impairment of trade receivables***	21	719	1,724
Foreign exchange loss, net		1,896	790
Bank interest income		(520)	(119)
Gain on disposal of equity investments at fair value through profit or loss		<u>—</u>	<u>(1,290)</u>

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

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

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

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FINANCIAL INFORMATION OF THE GROUP

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

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

(a) Independent non-executive directors

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

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

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FINANCIAL INFORMATION OF THE GROUP

8. DIRECTORS’ REMUNERATION *(Continued)*

(b) Executive directors

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

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expense	Total emoluments
	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 Gary Ming Fai	300	2,160	270	632	3,362
	900	7,752	861	632	10,145

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

	Number of employees	
	2008	2007
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

10. TAX

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

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Current — PRC corporate income tax	2,302	2,091
Total tax charge for the year	<u>2,302</u>	<u>2,091</u>

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

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

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

10. TAX (Continued)

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

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

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

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

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

12. DIVIDENDS

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

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

13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

The calculation of diluted earnings per share for the year ended 31 December 2007 was based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

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13.

(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

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

	Group	
	2008	2007
	HK\$'000	HK\$'000
Loss/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	(89,626)	50,406
	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	311,174,000	295,837,173
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	5,137,469
	311,174,000	300,974,642

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

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2008							
At 31 December 2007							
and at 1 January 2008:							
Cost or valuation	286,593	20,667	109,143	13,553	9,979	20,019	459,954
Accumulated depreciation	(29,437)	(13,551)	(45,404)	(8,235)	(7,657)	–	(104,284)
Net carrying amount	<u>257,156</u>	<u>7,116</u>	<u>63,739</u>	<u>5,318</u>	<u>2,322</u>	<u>20,019</u>	<u>355,670</u>
At 1 January 2008, net of accumulated depreciation	257,156	7,116	63,739	5,318	2,322	20,019	355,670
Additions	3,359	5,238	16,500	621	3,756	69,087	98,561
Disposals	–	(538)	(5,759)	(1,236)	(413)	(256)	(8,202)
Depreciation provided during the year	(17,564)	(6,292)	(13,607)	(1,766)	(1,276)	–	(40,505)
Transfers	77,901	–	–	–	–	(77,901)	–
Revaluations	(26,513)	–	–	–	–	–	(26,513)
Exchange realignment	13,636	425	4,107	263	110	1,362	19,903
At 31 December 2008, net of accumulated depreciation	<u>307,975</u>	<u>5,949</u>	<u>64,980</u>	<u>3,200</u>	<u>4,499</u>	<u>12,311</u>	<u>398,914</u>
At 31 December 2008:							
Cost or valuation	346,853	26,726	125,187	13,420	13,401	12,311	537,898
Accumulated depreciation	(38,878)	(20,777)	(60,207)	(10,220)	(8,902)	–	(138,984)
Net carrying amount	<u>307,975</u>	<u>5,949</u>	<u>64,980</u>	<u>3,200</u>	<u>4,499</u>	<u>12,311</u>	<u>398,914</u>
Analysis of cost or valuation:							
At cost	183,510	26,726	125,187	13,420	13,401	12,311	374,555
At valuation	163,343	–	–	–	–	–	163,343
	<u>346,853</u>	<u>26,726</u>	<u>125,187</u>	<u>13,420</u>	<u>13,401</u>	<u>12,311</u>	<u>537,898</u>

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FINANCIAL INFORMATION OF THE GROUP

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

		Leasehold	Plant and	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	Buildings	improvements	machinery				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>157,162</u>	<u>7,187</u>	<u>63,882</u>	<u>5,322</u>	<u>3,262</u>	<u>46,283</u>	<u>283,098</u>
At 1 January 2007, net of accumulated depreciation	157,162	7,187	63,882	5,322	3,262	46,283	283,098
Additions	18,374	7,449	6,439	2,951	1,708	58,029	94,950
Acquisition of a subsidiary	175	618	–	116	–	1,752	2,661
Disposals	(1,897)	(892)	(636)	(802)	(1,290)	–	(5,517)
Disposals of a subsidiary	(167)	–	–	–	–	(1,752)	(1,919)
Depreciation provided during the year	(2,205)	(8,334)	(10,396)	(2,390)	(1,646)	–	(24,971)
Transfers	85,766	–	–	–	166	(85,932)	–
Transfer to non-current assets held for sales	(11,243)	–	–	–	–	–	(11,243)
Exchange realignment	<u>11,191</u>	<u>1,088</u>	<u>4,450</u>	<u>121</u>	<u>122</u>	<u>1,639</u>	<u>18,611</u>
At 31 December 2007, net of accumulated depreciation	<u>257,156</u>	<u>7,116</u>	<u>63,739</u>	<u>5,318</u>	<u>2,322</u>	<u>20,019</u>	<u>355,670</u>
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	<u>257,156</u>	<u>7,116</u>	<u>63,739</u>	<u>5,318</u>	<u>2,322</u>	<u>20,019</u>	<u>355,670</u>
Analysis of cost or valuation:							
At cost	102,251	20,667	109,143	13,553	9,979	20,019	275,612
At valuation	<u>184,342</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>184,342</u>
	<u>286,593</u>	<u>20,667</u>	<u>109,143</u>	<u>13,553</u>	<u>9,979</u>	<u>20,019</u>	<u>459,954</u>

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

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

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

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

15. PREPAID LAND LEASE PAYMENTS

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

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

16. GOODWILL

Group

HK\$'000

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

Impairment testing of goodwill

Key assumptions were used in the value in use calculation of the retail and wholesale cash-generating units for 31 December 2008. The recoverable amount of goodwill has been determined based on value in use calculation using market approach method according to the fair value less cost to sell approved by management.

17. INTANGIBLE ASSETS**Group**

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

18. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	91,744	91,744
Due from subsidiaries	173,253	134,027
	<u>264,997</u>	<u>225,771</u>

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.

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18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2008 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Chitaly (BVI) Limited	British Virgin Islands (“BVI”)	Hong Kong	Ordinary US\$1,000	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary US\$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary US\$10,000	–	100	Investment holding and trading of furniture
Wanlibao	PRC (note a)	Mainland China	Paid-up registered US\$5,700,000	–	100	Manufacture and trading of furniture
Fufa	PRC (note b)	Mainland China	Paid-up registered HK\$26,000,000	–	100	Manufacture and trading of furniture
Simply	PRC (note c)	Mainland China	Paid-up registered US\$18,000,000	–	100	Manufacture and trading of furniture
Yufa	PRC (note d)	Mainland China	Paid-up registered HK\$49,505,000	–	100	Manufacture and trading of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macao	Ordinary US\$1	–	100	Trading of furniture
King Apex International Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Lead Concept Development Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Smart Excel International Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Umbrella Group Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant

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FINANCIAL INFORMATION OF THE GROUP

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		Principal activities
				Direct	Indirect	
Coralview Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Ridgecrest Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Moffat Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Knollwood Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Sino Full	Macao	Macao	Ordinary MOP100,000	–	100	Dormant
Tomford Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Fuli	PRC (note e)	Mainland China	Registered capital HK\$45,167,000	–	100	Manufacture and trading of furniture
Censtar International Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Chitaly Furniture Global Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Spring Valley Properties Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Competent Holdings Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Dormant
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US\$1	–	100	Investment activities
Royale Furniture Anhui Limited	PRC (note f)	Mainland China	Registered capital HK\$1,444,234	–	100	Dormant
Signature Industry Limited	BVI	Mainland China	Ordinary HK\$31,000,000	–	71	Manufacture and sale of sofa

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

- a. Wanlibao is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 15 June 1999. The tenure of the articles of association and the terms of operations of Wanlibao are 30 years from 9 July 1999.
- b. Fufa is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 13 March 2003. The tenure of the articles of association and the terms of operations of Fufa are 20 years from 22 April 2003.
- c. Simply is a wholly-foreign-owned enterprise established pursuant to 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 12 December 2005.
- f. Royale Furniture Anhui Limited is a wholly-foreign-owned enterprise established pursuant to its articles of association dated 5 June 2006. The tenure of the articles of association and the terms of operations of Royal Furniture Anhui Limited are from 5 June 2006 to 28 November 2025.

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19. INTERESTS IN ASSOCIATES

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

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values. The Group’s trade receivable and payable balances with the associate are disclosed in note 21 and note 24 to the financial statements.

Particulars of the associates are as follows:

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

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

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

20. INVENTORIES

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

21. TRADE RECEIVABLES

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

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

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

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

21. TRADE RECEIVABLES (Continued)

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

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

	Group	
	2008	2007
	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 January	3,730	2,006
Impairment losses recognised (note 6)	719	1,724
	<hr/>	<hr/>
At 31 December	<u>4,449</u>	<u>3,730</u>

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

	2008	2007
	<i>HK\$’000</i>	<i>HK\$’000</i>
Neither past due nor impaired	59,364	21,168
One to three months past due	4,642	2,011
Over three months past due	2,538	192
	<hr/>	<hr/>
	<u>66,544</u>	<u>23,371</u>

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

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**Group**

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	6,506	16,771
Deposits and other receivables	54,241	60,320
	<u>60,747</u>	<u>77,091</u>

Company

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits and other receivables	<u>9,399</u>	<u>9,199</u>

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

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	<u>40,414</u>	<u>51,447</u>	<u>50</u>	<u>86</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$36,579,000 (2007: HK\$50,418,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. TRADE PAYABLES

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

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

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

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

25. OTHER PAYABLES AND ACCRUALS

Group

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

Company

	2008 HK\$'000	2007 HK\$'000
Other payables	<u>200</u>	<u>200</u>

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

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26. INTEREST-BEARING BANK LOANS

Group						
		2008			2007	
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Bank loans-unsecured	1/2/3-months HIBOR + 1	2009	28,000	1/2/3-months HIBOR + 1, or 6.2425	2008	30,306
Current portion of long term — Bank loans-secured	Hong Kong Dollar Prime Rate - 2.75	2009	697	Hong Kong Dollar Prime Rate - 2.75	2008	596
			<u>28,697</u>			<u>30,902</u>
Non-current						
Secured bank loans	Hong Kong Dollar Prime Rate - 2.75	2010-2022	10,645	Hong Kong Dollar Prime Rate - 2.75	2009-2022	11,404
			<u>39,342</u>			<u>42,306</u>
Group						
			2008			2007
			HK\$'000			HK\$'000
Analysed into:						
Within one year			28,697			30,902
In the second year			713			620
In the third to fifth years, inclusive			2,238			2,017
Beyond five years			7,694			8,767
			<u>39,342</u>			<u>42,306</u>

A bank loan of the Group is secured by mortgages over the Group’s office buildings situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$28,257,000 (2007: HK\$30,032,000).

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

27. DEFERRED TAX LIABILITIES

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

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

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group’s subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

28. SHARE CAPITAL

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Authorised:		
2,000,000,000(2007: 2,000,000,000) ordinary shares of HK\$0.10 each	<u><u>200,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:		
311,174,000 (2007: 311,174,000) ordinary shares of HK\$0.10 each	<u><u>31,117</u></u>	<u><u>31,117</u></u>

29. SHARE OPTION SCHEME

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

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

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

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

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

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

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

29. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share	Price of the Company's shares at grant date of options*** HK\$ per share
	At 1 January 2008 and 31 December 2008				
Directors					
Donald H. Straszheim	<u>800,000</u>	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80
	<u>800,000</u>	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Yau Chung Hong	<u>200,000</u>	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45
Chang Chu Fai, Johnson Francis	<u>200,000</u>	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35
	<u>400,000</u>	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Ma Gary Ming Fai	<u>2,900,000</u>	2/5/2007	3/5/2007 to 2/5/2017	1.35	1.33
Others					
Members of senior management and other employees of the Group	4,300,000	9/7/2007	10/7/2007 to 9/7/2017	1.516	1.48
	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80
	1,500,000	9/1/2006	10/1/2006 to 9/1/2016	3.675	3.675
	<u>8,000,000</u>	15/11/2006	16/11/2006 to 15/11/2016	1.104	1.08
	<u>13,900,000</u>				
In aggregate	<u>19,200,000</u>				

29. SHARE OPTION SCHEME *(Continued)*

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

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of grant of the share options is the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the trading day immediately prior to the date of grant of the options.

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

Subsequent to the balance sheet date, the Company effected an open offer of new shares on the basis of one share for every two share of HK\$0.1 each held by shareholders on 9 February 2009. Pursuant to the terms of the Scheme, the exercise price of the share options was adjusted to the range from HK\$1.028 to HK\$6.939 per share, and the aggregate number of shares subject to the Scheme was adjusted from 19,200,000 to 20,614,736.

30. RESERVES

(a) Group

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

(b) Company

	Share premium account <i>(note a)</i> <i>HK\$'000</i>	Share option reserve <i>(note b)</i> <i>HK\$'000</i>	Accumulated (losses)/ retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	147,490	10,860	(25,210)	133,140
Issue of shares	63,786	–	–	63,786
Share option exercised	11,455	(3,124)	–	8,331
Equity-settled share option expense	–	2,543	–	2,543
Interim 2007 dividend declared	–	–	(3,509)	(3,509)
Proposed final 2007 dividend	–	–	(7,779)	(7,779)
Loss for the year	–	–	(552)	(552)
At 31 December 2007 and at 1 January 2008	222,731	10,279	(37,050)	195,960
Equity-settled share option expense	–	423	–	423
Interim 2008 dividend declared	–	–	(3,734)	(3,734)
Proposed final 2008 dividend	–	–	(4,668)	(4,668)
Profit for the year	–	–	50,480	50,480
At 31 December 2008	<u>222,731</u>	<u>10,702</u>	<u>5,028</u>	<u>238,461</u>

30. RESERVES (Continued)

(b) Company (Continued)

Notes:

- (a)

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

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

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

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

32. COMMITMENTS

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

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
The construction of land and buildings	8,671	17,442
The purchase of property, plant and machinery	—	1,594
	<u>8,671</u>	<u>19,036</u>

33. CONTINGENT LIABILITIES

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

34. RELATED PARTY TRANSACTIONS

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

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Associates:		
Sale of products	<u>7,965</u>	<u>7,474</u>
Purchase of products	<u>84,269</u>	<u>61,568</u>

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

- (b) Outstanding balance with an associate:

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

34. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel of the Group

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

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities	<div> <div>2008</div> <div>Financial liabilities at amortised cost</div> <div>HK\$'000</div> </div>	<div> <div>2007</div> <div>Financial liabilities at amortised cost</div> <div>HK\$'000</div> </div>
Trade payables	86,494	109,597
Financial liabilities included in other payables and accruals <i>(note 25)</i>	76,367	61,641
Interest-bearing bank borrowings	39,342	42,306
	202,203	213,544
Financial assets		
	<div> <div>Company</div> <div>2008</div> <div>HK\$'000</div> </div>	<div> <div>2007</div> <div>HK\$'000</div> </div>
Financial assets included in prepayments, deposits and other receivables <i>(note 22)</i>	9,399	9,199
Cash and cash equivalents	50	86
	9,449	9,285
Financial liabilities		
	<div> <div>2008</div> <div>HK\$'000</div> </div>	<div> <div>2007</div> <div>HK\$'000</div> </div>
Financial liabilities included in other payables and accruals <i>(note 25)</i>	200	200

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Interest rate risk

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

The interest-bearing borrowings with floating interest rates are denominated in the Hong Kong dollar. If there would be a general increase/decrease in the interest rate of bank borrowings with floating interest rates by 25 basis points, with all other variables held constant, the profit before tax and owners' equity for the Group would have been decreased/increased by approximately HK\$27,000 and HK\$29,000 for the years ended 31 December 2008 and 2007 respectively.

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 5.14% (2007: 4.24%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 100% (2007: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Foreign currency risk (Continued)

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

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

* Excluding retained earnings.

(iii) Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk

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

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. 73% of the Group’s debts would mature in less than one year as at 31 December 2008 (2007: 73%) based on the carrying values of borrowings reflected in the financial statements.

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

Group	2008		
	Less than		
	1 year	Over 1 year	Total
	HK\$'000	HK\$'000	HK\$'000
Interest-bearing bank loans	28,697	10,645	39,342
Trade payables	86,494	–	86,494
Other payables and accruals	110,518	–	110,518
	<u>225,709</u>	<u>10,645</u>	<u>236,354</u>
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
	<u>230,968</u>	<u>11,404</u>	<u>242,372</u>

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

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

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

Group

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

37. POST BALANCE SHEET EVENTS

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

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

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

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

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

(C) INDEBTEDNESS**Borrowings**

The table below sets forth the Group's borrowings as of the dates indicated.

	Effective interest rate %	maturity	As of 31 December, 2006	2007	2008	As of 30 April, 2009
<i>HK\$ in thousands</i>						
Current						
Bank loans — secured ⁽¹⁾	Hong Kong dollars base rate – 2.75	2008	638	596	697	748
Bank loans — unsecured ⁽²⁾				30,306	28,000	8,000
Non-current						
Bank loans — secured ⁽¹⁾	Hong Kong dollars base rate – 1.50	2009-2024	11,101	11,404	10,645	26,295
Total			<u>11,739</u>	<u>42,306</u>	<u>39,342</u>	<u>35,043</u>

(1) Bank loans as at 31 December, 2006, 2007 and 2008 and 30 April 2009 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\$31,807,784, HK\$30,032,465 and HK\$28,257,147 and HK\$27,665,374 respectively.

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

The Directors confirm that, during the period ended 30 April 2009, there was no delay or default repayment of bank borrowings by the Group.

As of 30 April 2009, for the purpose of this statement of indebtedness of the Group prior to the printing of the Composite Offer Document, the Group had outstanding bank loans of HK\$35 million which represented HK\$27 million secured loan that the collateral was the Group's office building situated in Hong Kong and HK\$8 million short-term unsecured loans denominated in Hong Kong dollars with an interest rate ranged of 2% per annum over 1/2/3 month(s) Hong Kong Interbank Offered Rate. The short term unsecured bank loan of HK\$8 million was matured in mid April 2009 and such bank loan has subsequently been rolled over for another three months to July 2009. As of 30 April 2009, the total amount of the collateral given for the utilized borrowing of the Group is HK\$27 million. For the purpose of this statement of indebtedness of the Group, amounts in foreign currencies have been translated into Hong Kong dollars at the applicable rate of exchange as of the balance sheet dates.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any bank loan, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2009.

Save as disclosed above, the Directors confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 April 2009 to the Latest Practicable Date.

(D) MATERIAL CHANGE

As at the Latest Practicable Date, save as disclosed below, the Directors confirmed that they were not aware of any material change in the financial and trading position or outlook of the Group subsequent to 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up:

- the completion of an open offer, details of which are set out in the announcement of the Company dated 3 March 2009 (including other references to the announcements and prospectus of the Company as mentioned in such announcement); and
- the cancellation of all the 20,614,736 outstanding share options of the Company which have been granted but not exercised, details of which are set out in the circular of the Company dated 30 April 2009, as approved by the Shareholders at the AGM.

The following is the text of a letter, summary of values and valuation certificate received from LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, in connection with their valuations as at 31 March 2009 of the property interests of the Group for the purpose of inclusion in the Composite Offer Document.



利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROPERTY VALUERS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 (the “IVS”) published by the International Valuation Standards Committee as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

10 June 2009

The Directors
Royale Furniture Holdings Limited
Room 204, 2nd Floor
Wing On Plaza
No. 62 Mody Road
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to us to value the properties in which Royale Furniture Holdings Limited (hereinafter referred to as the “Company”) and its subsidiaries (collectively, hereinafter together with the Company referred to as the “Group”) have interests in Hong Kong, Macao and the People’s Republic of China (hereinafter referred to as the “PRC” or “China”), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary to support our opinion of values of the properties of the Group as at 31 March 2009 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose.

At the request of the management of the Company, we prepared this summary report to summarise our findings and conclusion as documented in our detailed valuation report of the properties as at today's date for the purpose of inclusion in a circular at today's date for the Company's shareholders' reference. Terms herein used without definition shall have the same meanings as in the detailed valuation report, and the assumptions and caveats adopted in the detailed valuation report also apply to this report.

We understand that the management of the Company will incorporate our work product as part of its business due diligence and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence, which the management of the Company should conduct, in reaching its business decisions regarding the properties valued. Our work is designed solely to provide information that will give the management of the Company a reference to form part of its internal due diligence.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS, which the HKIS Standards also follows, there are two valuation bases in valuing property, namely market value basis and valuation bases other than market value. Our valuations of the subject properties are on market value basis, and the term "Market Value" is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuations have been made on the assumptions that, as at the Date of Valuation,

1. the legally interested party in each of the properties in Group I and Group II has free and uninterrupted rights to assign the property for the whole of the unexpired terms as granted under the relevant approvals and any premiums/administrative costs payable have already been fully paid;
2. the legally interested party in each of the properties in Group I and Group II sells the property on the open market in its existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property; and,
3. properties in Group I and Group II can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should this not be the case, it will have adverse impact to the reported findings and conclusion herein.

In the process of valuing the properties, we have considered the classical asset appraisal approaches to value, namely the Cost Approach, the Sales Comparison Approach and Income Approach as stipulated in the relevant guidance notes of the applicable valuation standards in Hong Kong.

In valuing the properties in Group I, we have adopted the Depreciated Replacement Cost (the DRC) Method which is an application of the Cost Approach. The DRC Method is a procedural value based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements erected thereon, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation.

For owner occupied specialised properties where it is impracticable to identify the market value by Sales Comparison Approach, the DRC Method is considered as the most appropriate method. The underlying theory of this method is the market value of the valued properties should, at least, be equivalent to the replacement cost of the remaining service potential of the valued properties i.e. the DRC of the valued properties. In our opinion, the DRC generally furnishes the most reliable indication of value for property where it is not practicable to ascertain its value on sales comparison basis.

Specialised properties are certain types of properties which are rarely, if ever, sold in the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from their specialised nature and design of the buildings, their configuration, size, location or otherwise. Examples are: standard properties located in particular geographical areas and remote from main business centres for operational or business reasons, that are of such an abnormal size for that district, that there would be no market for such buildings there; buildings and site engineering works related directly to the business of the owner, as it is highly unlikely that they would have a value to anyone other than a company acquiring the undertaking; and properties of such construction, arrangement, size or specification that there would be no market (for a sale to a single owner occupier for the continuation of existing use) for those buildings. Having considered the inherent and general characteristics of the properties in Group I, we are of the opinion that the properties are specialised properties.

As the properties in Group I being valued are classified as specialised properties for private sector, our valuations of the properties are on the basis of the DRC of the properties and being subject to the adequate potential profitability of the business having due regard to the values of the total assets employed and the nature of the operation.

By using the DRC Method, the land should be assumed to having obtained planning permission for the replacement of the existing buildings and it is always necessary when valuing the land, to have regard to the manner in which the land is developed by the existing buildings and site works, and the extent to which these realise the full potential value of the land. When considering a notional replacement site, it should normally be regarded as having the same physical and location characteristics as the actual site, other than characteristics of the actual site which are not relevant, or are of no value, to the existing use. In considering the buildings, it further stipulates that the gross replacement cost of the buildings should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are at the date of valuation which are fit for and capable of being occupied and used for the current use. These estimated costs are not for erecting buildings in the future but for providing buildings to be available for occupation at the date of valuation, the work having commenced at the appropriate time.

In valuing the property in Group II, we have adopted the Sales Comparison Approach on the assumption that the property was sold with the benefit of vacant possession as at the Date of Valuation. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

For valuing the properties in Groups III and IV, no commercial (market) values were assigned to the properties due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents. In accordance with the Practice Note No. 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, we have excluded full text of the valuation report of the property interests held by the Group under operating leases in Groups III and IV from the attached valuation certificate.

Unless otherwise stated, for valuing properties in Groups I and II, we have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

For the properties situated in the PRC, the type of taxes that could arise when those properties are sold include enterprise income tax, business tax, land appreciation tax and stamp duty. According to the information provided by the management of the Company, the properties in Group I located in the PRC and the property in Group II located in Hong Kong are held and occupied by the Group for its owned business operations. The Group has no plan to sell the properties in Groups I and II and it is unlikely that the potential tax liability will be crystallised in the near future.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in this report. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the market value basis of valuation, the management of the Company provided us the necessary documents to support that the legally interested party in each of the properties in Group I has free and uninterrupted rights to assign the property interest (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the management of the Company did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained each of the properties from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

We have been provided with copies of tenancy agreements for properties in Groups III and IV, and a list of tenancies summary for properties in Group IV, but we have not been provided with title documents regarding these properties. We have conducted title searches of the properties in Groups II and III in the Land Registry of Hong Kong and Conservatoria do Registo Predial of Macao, respectively. We have not examined the original documents to verify the ownership and encumbrances, or to ascertain the existence of any lease amendments which may not appear on the copies handed to us. Due to inherent defects in the land registration system of China, we are unable to search the original documents from the relevant land registration departments to verify the existing titles of the properties or any material encumbrances that might be attached to the properties in Groups I and IV. As we are not in the legal profession, we are unable to ascertain the titles and to report any encumbrances (if any) that are registered against the properties. However, we have complied with the requirements as stated in the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the PRC legal opinions as provided by the Company with regard to the existing legally interested party in each of the properties in Group I. We were given to understand that the PRC legal opinions were prepared by qualified PRC legal advisers 廣東法制盛邦律師事務所 (Guangdong Everwin Law Office) dated 22 May 2009. No responsibility or liability is assumed in relation to these legal opinions. All documents disclosed (if any) are for reference only.

In our valuations, we have assumed that the legally interested party in each of the properties in Groups I and II has the right to dispose the property with all the approval and/or endorsement from the relevant authorities, and that there would be no legal impediment (especially from the regulators) for the legally interested party to continue the ownership of each of the properties in such groups of property. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS

We have inspected the exterior, and where possible, the interior of most of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed, not being arranged, excluded or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and the attached valuation certificate should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we were unable to identify those services covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the various areas of the properties, but have assumed that the areas shown on the documents and official plans handed to us are correct. All dimensions, measurements and areas are approximations.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the properties, or have since been incorporated into the properties, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such materials to any significant extent.

Our engagement did not include a land survey to verify the legal boundaries and the exact location of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the representation of the Group's personnel with regard to the legal boundaries and location of the properties. No responsibility is assumed in this regard.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

We have relied solely on the information provided by the management of the Company or its appointed personnel and have accepted advice given to us on such matters as planning approvals or statutory notices, titles, easements, tenure, occupation, lettings, site and floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Company. The properties on the list have been included in the attached summary of values and the valuation certificate. The management of the Company has confirmed to us that the Group has no property interests other than the disclosed in the attached summary of values and the valuation certificate.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and/or the management of the Company in our valuations, the assumptions and caveats adopted by them in arriving at their opinions also apply in our valuations. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuations.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company of material and latent facts that may affect the valuations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Hong Kong dollars (HK\$). In valuing the properties in Group I, the adopted exchange rate was the prevailing rate as at the Date of Valuation, being Renminbi (Rmb) 0.88 per HK\$1 and no significant fluctuation in exchange rate has been found between that date and the date of this summary report.

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our opinion of values of the properties in the attached summary of values and the valuation certificate are valid only for the stated purpose as at the Date of Valuation and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the use of the attached valuation certificate should not be used as a building survey of the properties. If the management of the Company wants to satisfy them as to the condition of the properties, then the management of the Company should obtain a surveyor's detailed inspection and report of their own.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise the attached summary of values and the valuation certificate to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our report is prepared in line with the requirements contained in Chapter 5 and Practice Note Nos. 12 and 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Rule 11 of The Codes on Takeovers and Mergers and Share Repurchases published by the Securities and Futures Commission as well as the guidelines contained in the HKIS Standards. The valuations have been undertaken by valuer, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi
B.Sc. PgD RPS (GP)
Managing Director

Elsa Ng Hung Mui
B.Sc. M.Sc. RPS (GP)
Director

Contributing valuers:

Terry Fung Chi Hang *B.Sc*
Leslie Wong Tak Chiu *B.Sc*
Eugene Lai Chung Yee *ASc*

Notes:

1. Mr. Joseph Ho Chin Choi has been conducting assets valuation (including real estate properties) and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Finland, Germany, Scotland, Argentina, Guyana, Canada and the United States of America for various purposes since 1988. He has more than 20 years of experience in valuing real estate properties in mainland China.
2. Ms. Elsa Ng Hung Mui is a Registered Professional Surveyor who has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 10 years of experience in valuing properties in mainland China.
3. Both Mr. Joseph Ho Chin Choi and Ms. Elsa Ng Hung Mui are valuers in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

SUMMARY OF VALUES

Group I — Properties held and occupied by the Group under long-term title certificates in the PRC and valued on market value basis

		Amount of valuations in existing state attributable to the Group as at 31 March 2009 HK\$
Property	Interest attributable to the Group	
1. A factory complex erected on two parcels of land and located at Shijing Long Jigang Village Xiancun Town Zengcheng Guangzhou City Guangdong Province The People’s Republic of China	100 per cent.	41,640,000
2. A factory complex erected on two parcels of land and located at Baishigang Jigang Union Hengling Village Shitan Town Zengcheng Guangzhou City Guangdong Province The People’s Republic of China	100 per cent.	240,530,000
Sub-total:		<u><u>HK\$282,170,000</u></u>

APPENDIX III

PROPERTY VALUATION REPORT

Group II

—

Property held and occupied by the Group in Hong Kong and valued on market value basis

Property	Interest attributable to the Group	Amount of valuations in existing state attributable to the Group as at 31 March 2009 HK\$
3. Unit No.4 on 2nd Floor Wing On Plaza No.62 Mody Road Tsim Sha Tsui Kowloon Hong Kong	100 per cent.	33,730,000
Sub-total:		<u><u>HK\$33,730,000</u></u>

Group III

—

Property occupied by the Group under operating lease in Macao

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009 HK\$
4. 11 Andar F Commercial Do Grupo Brilhantismo Almeda DR, Carlos D’Assumpcao 181-187 Macao	No Commercial Value
	<hr/>
	Sub-total: <u><u>NIL</u></u>

Group IV — Properties occupied by the Group under operating leases in the PRC

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009
	<i>HK\$</i>
5. Unit 14 on Level 3 Juran Zhijia, Yu Quan Ying No.58 Nan San Huan Xi Road Feng Tai District Beijing The People’s Republic of China	No Commercial Value
6. A Retail Unit on Level 3 Red Star Macalline No. 113 Xi Si Huan Zhong Road Feng Tai District Beijing The People’s Republic of China	No Commercial Value
7. Two Retail Units on Level 1 of No. 3 Hall Jimei Jiaju No. 14 You Wai Da Hong Men Xi Ma Chang Jia Feng Tai District Beijing The People’s Republic of China	No Commercial Value
8. B101 on Level 1 Huan San Huan Jiaju Zhekou Dian Jiaju Ting No. 69 Nan San Huan Xi Road Feng Tai District Beijing The People’s Republic of China	No Commercial Value
9. A Retail Unit No A-2-15 Lan Jing Lijia No. 23 Bei San Huan Xi Road Hai Dian District Beijing The People’s Republic of China	No Commercial Value

APPENDIX III

PROPERTY VALUATION REPORT

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009 HK\$
10. A Retail Unit on Level 3 Jin Yuan Shop Juran Zhijia No. 1 Yuan Da Road Hai Dian District Beijing The People's Republic of China	No Commercial Value
11. Unit 4128-001 Jimei Furniture Gift Hall Xi Si Huan Hai Dian District Beijing The People's Republic of China	No Commercial Value
12. The whole of a Composite Building No.10-1 Jian Guo Road Lang Jia Garden Chao Yang District Beijing The People's Republic of China	No Commercial Value
13. A Retail Unit No.02 of Passage of No. 6 East Zone on Level 1 Cheng Wai Cheng Furniture Cultural Plaza No. 308 Cheng Shou Si Road Nan Si Huan Chao Yang District Beijing The People's Republic of China	No Commercial Value
14. Two Retail Units on Level 2 of No. 4 Hall Juran Zhijia Da Yang Fang Road Shiba Lidian Chao Yang District Beijing The People's Republic of China	No Commercial Value
15. A Warehouse and various ancillary facilities located at Zizhihe Village Shiba Lidian Chao Yang District Beijing The People's Republic of China	No Commercial Value

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009 <i>HK\$</i>
16. Units D8108 and 8109 on Level 3 Red Star Macalline World-Expo Furniture Plaza South of Dajiaoting Qiao Dong Si Huan Zong Road Chao Yang District Beijing The People’s Republic of China	No Commercial Value
17. A Retail Unit on Level 4 Red Star Macalline Global Furnishing Design and Exhibition Centre No.1 Beisha Tan De Sheng Men Wai Chao Yang District Beijing The People’s Republic of China	No Commercial Value
18. Counters A25 - A28 365 Furnishing Plaza Bao An District Shenzhen Guangdong Province The People’s Republic of China	No Commercial Value
19. Unit 302 on Level 3 Caihong Xindu Podium No. 3006 Caitian Road Fu Tian District Shenzhen Guangdong Province The People’s Republic of China	No Commercial Value
20. Exhibition Stall Nos. 2C023 and 2C025 on Level 2 Red Star Macalline International Home Furniture Mall Fu Tian District Shenzhen Guangdong Province The People’s Republic of China	No Commercial Value

Property	Amount of valuations
	in existing state attributable to the Group as at 31 March 2009 HK\$
21. Units A20 and A21 on Level 1 of South Zone Kinhom Shibo Centre Fu Tian District Shenzhen Guangdong Province The People’s Republic of China	No Commercial Value
22. Unit 201 on Level 2 Dule Furniture Exhibition Centre Yangguang Plaza Long Gang District Shenzhen Guangdong Province The People’s Republic of China	No Commercial Value
23. Unit 221 on Level 2 Nos. 830 and 831 Baoan North Road Sungang Warehouse Zone Luo Hu District Shenzhen Guangdong Province The People’s Republic of China	No Commercial Value
24. A Retail Unit at Field No. 1 on Level 1 Zone 1 Low Price Furniture Centre Huanghe Road Zhengzhou City Henan Province The People’s Republic of China	No Commercial Value
25. Retail Units at Field Nos. 26 and 27 on Level 2 International Furniture Centre Songshan Road Zhengzhou City Henan Province The People’s Republic of China	No Commercial Value

APPENDIX III

PROPERTY VALUATION REPORT

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009 HK\$
26. A Retail Unit at Field No. 22 on Level 3 Zone C International Furniture Centre Songshan Road Zhengzhou City Henan Province The People's Republic of China	No Commercial Value
27. Unit 1 of Zone 1 Level 1 to Level 5 of South Tower Fashion Furniture Centre Wenhua Road Zhengzhou City Henan Province The People's Republic of China	No Commercial Value
28. Portions of Levels 1 to 4 Fashion Furniture Centre Wenhua Road Zhengzhou City Henan Province The People's Republic of China	No Commercial Value
29. A Retail Unit on Level 4 No. 800 Qu Yang Road Hong Kou District Shanghai The People's Republic of China	No Commercial Value
30. Stall Nos. C138, C148 and C158 at International Hall No.15 Chang Yi Road Bao Shan District Shanghai The People's Republic of China	No Commercial Value
31. Two various Retail Units on Level 2 and two various Retail Units on Level 3 No.1801 Hu Tai Road Bao Shan District Shanghai The People's Republic of China	No Commercial Value

APPENDIX III

PROPERTY VALUATION REPORT

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009
	<i>HK\$</i>
32. Two Warehouse Units on Level 1 No. 1580 Nan Yun Zao Road Bao Shan District Shanghai The People's Republic of China	No Commercial Value
33. Unit 1502 No. 308 Xianghe Mingdi Meichuan Road No. 1333 Lane Pu Tuo District Shanghai The People's Republic of China	No Commercial Value
34. A Retail Unit on Level 2 No. 168 Ao Men Road Pu Tuo District Shanghai The People's Republic of China	No Commercial Value
35. Exhibition Stall Nos. C8032, C8035, C8039 and C8050 on Level 3 No. 1208 Zhenbei Road Pu Tuo District Shanghai The People's Republic of China	No Commercial Value
36. Exhibition Stall Nos. C8199 - C8202 and C8218 on Level 3 No. 1208 Zhenbei Road Pu Tuo District Shanghai The People's Republic of China	No Commercial Value
37. A Residential Unit at No. 85 of Block 32 Xin Chang Zheng Hua Yuan Xiao Qu Qing Yu Road No. 130 Lane Pu Tuo District Shanghai The People's Republic of China	No Commercial Value

Property	Amount of valuations in existing state attributable to the Group as at 31 March 2009	
	HK\$	
38. A Retail Unit on Level 4 No. 185 Tong Chuan Road Shanghai The People’s Republic of China	No Commercial Value	
39. A Retail Unit on Level 1 No. 165 Yu De Road Shanghai The People’s Republic of China	No Commercial Value	
40. B1 - 106 of Block 1 No. 5399 Jia Song Zhong Road Zhao Xinag Shanghai The People’s Republic of China	No Commercial Value	
41. Two various Warehouse Units on Levels 2 and 3 No. 373 Chang Jiang Road Changhe Town Bin Jiang District Hangzhou Zhejiang Province The People’s Republic of China	No Commercial Value	
42. Various Retail Units on Levels 2 and 4 Huadong Boutique No. 473 Chau To Road Hangzhou Zhejiang Province The People’s Republic of China	No Commercial Value	
	<hr/>	
	Sub-total:	Nil
	Grand Total:	<u><u>HK\$315,900,000</u></u>

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group under long-term title certificates in the PRC and valued on market value basis

			Amount of valuation in existing state attributable to the Group as at 31 March 2009 HK\$
Property	Description and tenure	Particulars of occupancy	
1. A factory complex erected on two parcels of land and located at Shijing Long Jigang Village Xiancun Town Zengcheng Guangzhou City Guangdong Province The People's Republic of China	<p>The property comprises two parcels of adjoining land having a total site area of approximately 25,224.5 sq.m. with 12 various major buildings and structures erected thereon.</p> <p>The major buildings and structures include office, showroom, warehouses, staff quarters of height ranging from single to 3-storeys which were completed in between 2000 and 2003. According to the information provided by the management of the Company, the major buildings and structures have a total gross floor area of approximately 40,060 sq.m. (<i>See Note 3 below</i>).</p> <p>The property is subject to a right to use the land for various terms till 24 December 2048 or 29 December 2048 for industrial purpose. (<i>See Notes 1 and 2 below</i>).</p>	<p>We have inspected and confirmed by the management of the Company that the property as at the Date of Valuation was occupied by the Group for office, showroom, staff quarters, warehouse and other supporting purposes.</p>	41,640,000 (100% interest)

Notes:

1. The right to possess the land is held by the State and the right to use the land has been granted by the State to 萬利寶 (廣州) 傢俱有限公司 (Wanlibao (Guangzhou) Furniture Limited and hereinafter referred to as “Wanlibao”), a wholly-owned subsidiary of the Company, through the following ways, they are:
- (i) A parcel of land having a site area of approximately 60,004 sq.m.
- According to a State-owned Land Use Rights Certificate known as Zeng Guo Yong (2000) Zi Di C0300013 Hao issued by the Land Bureau of Zengcheng City and dated 28 September 2000, the legally interested party in the land is Wanlibao till 24 December 2048 for industrial purpose.
- (ii) A parcel of land having a site area of approximately 15,204 sq.m.
- According to a State-owned Land Use Rights Certificate known as Zeng Guo Yong (2000) Zi Di C0300019 Hao issued by the Land Bureau of Zengcheng City and dated 7 July 2000, the legally interested party in the land is Wanlibao till 29 December 2048 for industrial purpose.
2. According to an agreement for resumption of State-owned land use rights dated 31 May 2007, a portion of land having a total site area of 49,983.5 sq.m. (a portion of land having an area of 55.787 Chinese mu from land mentioned in Note 1(i) above and a portion of land having an area of 19.188 Chinese mu from land mentioned in Note 1(ii) above) was resumed by the Land and Resources Bureau of Zengcheng City at a compensation amount of RMB180,000 per Chinese mu.
3. According to the information provided by the management of the Company, the area breakdowns for each of the buildings and structures are as follows:

Building/Structure		Year of Completion	Gross Floor Area (sq.m.)
(i)	Various showrooms	2003	10,800
(ii)	An office	2003	2,040
(iii)	Various staff quarters	2000	5,981
(iv)	A 2-storey director’s quarters	2000	1,120
(v)	Various warehouses	2003	19,147
(vi)	A canteen	2000	972
		Total:	<u>40,060</u>

4. According to the legal opinions as provided by the management of the Company and prepared by the Company’s PRC legal adviser, 廣東法制盛邦律師事務所, the following opinions are noted:
- (i) Wanlibao is a wholly foreign owned enterprise registered in the PRC with a valid Enterprise Legal Person Business License for operation from 9 July 1999 to 9 July 2029;
- (ii) Wanlibao has obtained the land use rights of the land as mentioned in Note 1 above legally by way of land grant and has the right to erect buildings and structures thereon;
- (iii) According to the agreement for resumption of State-owned land use rights as mentioned in Note 2 above, Wanlibao has the land use rights of the remaining land for the respective unchanged land use term; and
- (iv) Wanlibao is the only legally interested party in the property and has the right to use, lease or assign the property for the remaining terms of land use and no additional land premium payment is required.

			Amount of valuation in existing state attributable to the Group as at 31 March 2009 HK\$
Property	Description and tenure	Particulars of occupancy	
2. A factory complex erected on two parcels of land and located at Baishigang Jigang Union Hengling Village Shitan Town Zengcheng Guangzhou City Guangdong Province The People's Republic of China	<p>The property comprises two parcels of adjoining land having a total site area of approximately 187,575.8 sq. m. with 8 various major buildings and structures erected thereon.</p> <p>The major buildings and structures include office, workshops, warehouses of height ranging from 2 to 3-storeys which were completed in between 2007 and 2009. According to information provided by the management of the Company, the major buildings and structures have a total gross floor area of approximately 168,101 sq. m. <i>(See Note 2 below).</i></p> <p>The property is subject to a right to use the land till 23 April 2058 for industrial purpose. <i>(See Note 1 below).</i></p>	<p>We have inspected and confirmed by the management of the Company that the property as at the Date of Valuation was occupied by the Group for office, manufacturing, warehouse and other supporting purposes.</p>	240,530,000 (100% interest)

Notes:

1. The right to possess the land is held by the State and the right to use the land has been granted by the State to 廣州富利傢俱有限公司 (Guangzhou Fuli Furniture Company Limited and hereinafter referred to as “Fuli”) and 廣州裕發傢俱有限公司 (Guangzhou Yufa Furniture Company Limited and hereinafter referred to as “Yufa”), both are wholly-owned subsidiaries of the Company, through the following ways, they are:

 (i) A parcel of land having a site area of approximately 110,097.1 sq.m. (Land 1)

 According to a State-owned Land Use Rights Certificate known as Zeng Guo Yong (2009) Zi Di B0500215 Hao issued by the People’s Government of Zengcheng City and dated 20 January 2009, the legally interested party in the land is Fuli till 23 April 2058 for industrial purpose.

 (ii) A parcel of land having a site area of approximately 77,478.7 sq.m. (Land 2)

 According to a State-owned Land Use Rights Certificate known as Zeng Guo Yong (2009) Zi Di B0500216 Hao issued by the People’s Government of Zengcheng City and dated 20 January 2009, the legally interested party in the land is Yufa till 23 April 2058 for industrial purpose.
2. According to the information provided by the management of the Company, the area breakdowns for each of the buildings and structures are as follows:

Building/Structure		Year of Completion	Gross Floor Area (sq.m.)
<i>Erected on Land 1 and Occupied by Fuli</i>			
(i)	Workshop No.1	2008	24,800
(ii)	Workshop No.2	2008	24,800
(iii)	Workshop No.3	2009	36,000
(iv)	A warehouse	2008	6,045
<i>Erected on Land 2 and Occupied by Yufa</i>			
(i)	Workshop No.1	2007	19,699
(ii)	Workshop No.2	2007	12,809
(iii)	Warehouse No.1	2007	21,974
(iv)	Warehouse No.2	2007	21,974
		Total :	168,101

3. According to the legal opinions as provided by the management of the Company and prepared by the Company's PRC legal adviser, 廣東法制盛邦律師事務所, the following opinions are noted:
- (i) Fuli is a wholly foreign owned enterprise registered in the PRC with a valid Enterprise Legal Person Business License for operation from 12 December 2005 to 12 December 2025;
 - (ii) Yufa is a wholly foreign owned enterprise registered in the PRC with a valid Enterprise Legal Person Business License for operation from 14 September 2005 to 14 September 2025;
 - (iii) Fuli has obtained the land use rights of the land as mentioned in Note 1(i) above legally by way of land grant and has the right to erect buildings and structures thereon. Fuli is the only legally interested party in the property and has the right to use, lease or assign the property for the remaining terms of land use and no additional land premium payment is required; and
 - (iv) Yufa has obtained the land use rights of the land as mentioned in Note 1(ii) above legally by way of land grant and has the right to erect buildings and structures thereon. Yufa is the only legally interested party in the property and has the right to use, lease or assign the property for the remaining terms of the land use and no additional land premium payment is required.

Group II — Property held and occupied by the Group in Hong Kong and valued on market value basis

			Amount of valuation in existing state attributable to the Group as at 31 March 2009 HK\$
Property	Description and tenure	Particulars of occupancy	
3. Unit No.4 on 2nd Floor Wing On Plaza No. 62 Mody Road Tsim Sha Tsui Kowloon Hong Kong	The property comprises an office unit on the 2nd floor of a 16-storeyed (including upper ground floor, lower ground floor, ground floor and basement) commercial building which was completed in 1981.	We have inspected and confirmed by the management of the Company that the property as at the Date of Valuation was occupied by the Group for office purpose.	33,730,000 (100% interest)
299/26500th shares of and in Kowloon Inland Lot No.10586	According to the information made available to us, the property has a gross floor area of Approximately 4,889 sq.ft. (454.20 sq.m.).		
	The subject lot is held under Conditions of Sale No. UB11188 for a term of 75 years renewable for 75 years commencing from 31 March 1978.		
	Government rent per annum for the subject lot is \$1,000.		

Notes:

1. The registered owner of the property is Chitaly Furniture Limited, a wholly-owned subsidiary of the Company, vide Assignment dated 30 November 2004 and registered in the Urban Land Registry by Memorial No. 9423602 on 23 December 2004 at a consideration of HK\$34,223,000.
2. The property is subject to a Mortgage in favour of Hang Seng Bank Limited dated 24 December 2007 and registered in the Land Registry by Memorial No. 08011802340087 on 18 January 2008 at a consideration of all monies.

RESPONSIBILITY STATEMENT

The Composite Offer Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Offer Document and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Offer Document, the omission of which would make any statement in the Composite Offer Document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Offer Document (other than those relating to the Offeror, its associates and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Offer Document (other than those expressed by the Offeror, its associates and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Offer Document, the omission of which would make any statement in the Composite Offer Document misleading.

SHARE CAPITAL**(a) Authorised and issued share capital of the Company**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

	Number of Shares	Nominal Value <i>HK\$</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
— As at the Latest Practicable Date	2,000,000,000	20,000,000
Issued and to be issued and fully paid:		
— As at the Latest Practicable Date	466,761,000	46,676,100

All existing Shares rank equally in all respects, including in particular as to dividend, voting rights and capital.

Since 31 December 2008, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, a total of 155,587,000 new Shares were issued pursuant to an open offer for new Shares on the basis of one new Share for every two existing Shares at an offer price of HK\$0.27 per Share. The open offer was completed in March 2009.

Save as disclosed above, there were no other Shares or outstanding warrants, options or securities of the Company which were convertible into Shares as at the Latest Practicable Date.

(b) Issued share capital of the Offeror

The issued share capital of the Offeror as at the Latest Practicable Date and upon completion of the Partial Offer is 1 share of USD1.00 each which was allotted to Mr. Tse Kam Pang, the sole director of the Offeror. Mr. Tse is also the Chairman, an executive Director and a substantial Shareholder of the Company.

Save as disclosed above, none of the Company and the Directors owned or controlled or had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

DISCLOSURE OF INTERESTS

(a) Interest of the Offeror, its director and parties acting in concert with it in the Shares

As at the Latest Practicable Date, the Offeror did not hold any Shares but the parties acting in concert with it held approximately 24.94% of the entire issued share capital of the Company.

Mr. Tse Kam Pang is the sole director of the Offeror and also the Chairman of the Company, an executive Director and a substantial Shareholder. He is also interested in the entire issued share capital of Crisana. Mr. Tse Kam Pang and Crisana together will be regarded as parties acting in concert with the Offeror. As at the Latest Practicable Date, the Offeror and parties acting in concert with it together held an aggregate of 116,403,000 Shares, representing approximately 24.94% of the entire issued share capital of the Company.

Name	Number of Shares beneficially held and nature of interest			Approximate percentage of the total issued share capital (%)
	Personal	Corporate	Total	
The Offeror (Note 1)	—	—	—	—
Crisana (Note 1)	—	107,175,000	107,175,000	22.96
Tse Kam Pang (Note 2)	9,228,000	—	9,228,000	1.98

Notes:

- 1. Mr. Tse Kam Pang is interested in the entire issued share capital of each of the Offeror and Crisana.
- 2. Mr. Tse Kam Pang is the Chairman of the Company and an executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror, director of the Offeror or parties acting in concert with it owned or controlled or had any issued Shares, outstanding warrants, options or securities of the Company which were convertible into Shares.

(b) Interests of Directors in the Shares

As at the Latest Practicable Date, details of the interests in the Shares held by the Directors respectively were set out as follows:

Name of the Director	Number of Shares beneficially held and nature of interest			Approximate percentage of the total issued share capital (%)
	Personal	Corporate	Total	
Tse Kam Pang (Note 1)	9,228,000	107,175,000	116,403,000	24.94
Ma Gary Ming Fai (Note 2)	7,221,000	2,697,000	9,918,000	2.13
Yau Chung Hong (Note 3)	600,000	1,065,000	1,665,000	0.36

Notes:

1. Of a total of 116,403,000 Shares, 9,228,000 Shares were held by Mr. Tse Kam Pang personally and 107,175,000 Shares were held by Crisana, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is wholly owned by Mr. Tse Kam Pang.
2. Of a total of 9,918,000 Shares, 7,221,000 Shares were held by Mr. Ma Gary Ming Fai personally and 2,697,000 Shares were held by Upwise Investments Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is wholly owned by Mr. Gary Ma Ming Fai.
3. Of a total of 1,665,000 Shares, 600,000 Shares were held by Mr. Yau Chung Hong personally and 1,065,000 Shares were held by CNI Assets Management Ltd., a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is wholly owned by Mr. Yau Chung Hong.

Save as disclosed above, none of the Directors had any interests in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

(c) Substantial Shareholders' interests in the Shares

As at the Latest Practicable Date, the details of the interests in the Shares held by any person (other than the Directors) who had 10% or more interests in the Shares and notified to the Company were set out as follows:

Name of the Shareholder	Capacity and nature of interest	Number of Shares held	Approximate percentage of the total issued share capital (%)
Crisana (<i>Note 1</i>)	Directly beneficially owned	107,175,000	22.96
Assetbest Limited (<i>Note 2</i>)	Directly beneficially owned	48,408,000	10.37

Notes:

1. The 107,175,000 Shares were held by Crisana, a company which is wholly and beneficially owned by Mr. Tse Kam Pang, the Chairman of the Company.
2. The 48,408,000 Shares were held by Assetbest Limited, a company which is wholly and beneficially owned by Mr. Huang Wai Jei.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than the Directors) who had 10% or more of interests in the Shares.

OTHER INTERESTS IN THE COMPANY

Save as disclosed, as at the Latest Practicable Date:

- (i) none of the subsidiaries of the Company, nor pensions fund of the Company or any of the Company's subsidiaries, nor any advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code but excluding exempt principal traders had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (ii) no person with whom the Offeror or any person acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii) no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between the Offeror or any persons acting in concert with the Offeror and any other person. The director of the Offeror and its financial adviser were not aware of any such arrangements between any other associate of the Offeror and any other person;
- (iv) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (v) no fund managers (other than exempt fund managers) connected with the Company had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis; and
- (vi) neither the Company, any Directors, the Offeror nor any persons acting in concert with the Offeror had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, save for any borrowed Shares or any convertible securities, warrants, options or derivatives in respect of any Shares which had been either on-lent or sold.

DEALINGS IN SECURITIES**(a) By the Offeror or parties acting in concert with it**

Pursuant to an open offer for new Shares on the basis of one new Share for every two existing Shares as announced by the Company on 15 January 2009, which was completed in March 2009 (within the Relevant Period), Mr. Tse Kam Pang and Crisana have taken up their respective pro rata entitlements under the open offer by subscribing for an aggregate of 38,801,000 new Shares at HK\$0.27 per Share. Save as disclosed, neither the Offeror nor parties acting in concert with it (i) had acquired any voting rights in the open offer and; (ii) had dealt with the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

(b) By the Directors

- (i) Pursuant to an open offer for new Shares on the basis of one new Share for every two existing Shares as announced by the Company on 15 January 2009, which was completed in March 2009 (within the Relevant Period), each of Mr. Ma Gary Ming Fai and Mr. Yau Chung Hong has confirmed (for himself and on behalf of parties acting in concert with him) that each of them has taken up his respective pro-rata entitlements under the open offer by subscribing for 3,306,000 new Shares and 555,000 new Shares at HK\$0.27 per Share respectively. Save as disclosed, none of the Directors have acquired any voting rights in the open offer.
- (ii) On 14 January 2009, CNI Assets Management Ltd, a company wholly-owned by Mr. Yau Chung Hong, disposed of 270,000 Shares at a price of HK\$0.36 per Share on the Stock Exchange.

Save as disclosed, none of the Directors and the Offeror's sole director and parties acting in concert with it had dealt for value in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

(c) By the Directors in the Offeror

On 28 April, 2009, 1 share at USD1.00 per share of the Offeror was allotted to Mr. Tse Kam Pang. Mr. Tse Kam Pang is a substantial Shareholder, the Chairman of the Company and an executive Director. Save as disclosed, none of the Directors had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror during the Relevant Period.

(d) During the Relevant Period, save as disclosed in the section headed "Dealing in Securities" in this Appendix

- (i) none of the subsidiaries of the Company, nor pension funds of the Company or any of the Company's subsidiaries, nor any advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code but excluding exempt principal traders had dealt for value in any Shares or other convertible securities, warrants, options or derivatives in respect of any Shares;
- (ii) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares;

- (iii) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or parties acting in concert with it had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares;
- (iv) no fund managers connected with the Company (other than exempted fund managers) who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares;
- (v) there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror, or any person acting in concert with the Offeror or associates of the Offeror, and any other person; and
- (vi) there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code and any other person.

ARRANGEMENTS AFFECTING AND RELATING TO DIRECTORS

As at the Latest Practicable Date:

- (a) No benefit was or would be given to any Director as compensation for loss of office or otherwise in connection with the Partial Offer.
- (b) No agreement or arrangement existed between any Director and any other person which was conditional or dependent upon the outcome of the Partial Offer or otherwise connected with the Partial Offer.
- (c) No material contract had been entered into by the Offeror in which any Director had a material personal interest.
- (d) None of the Directors intended, or had any agreement or arrangement, in respect of their own beneficial shareholdings, to accept or reject the Partial Offer.

DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors have and/or had any service contracts and agreements with the Company or any of its subsidiaries or associated companies in force:

- (a) which (including both continuous and fixed term contracts) had been entered into or amended within six months before the commencement of the Offer Period;
- (b) which were continuous contracts with a notice period of 12 months or more; or
- (c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

MARKET PRICES

The table below shows the closing price per Share on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Day; and (iii) on the last trading day of each of the calendar months during the Relevant Period.

Date	Closing price per Share (HK\$)
28 November 2008	0.290
31 December 2008	0.347
30 January 2009	0.290
27 February 2009	0.285
31 March 2009	0.380
30 April 2009	0.330
Last Trading Day	0.335
Latest Practicable Date	0.475

HIGHEST AND LOWEST SHARE PRICE

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the six-month period from 5 November 2008, being the date falling six months prior to 4 May 2009, being the Last Trading Day, up to and including the Latest Practicable Date, were HK\$0.51 per Share on 20 May 2009 and HK\$0.275 per Share on 19 February 2009.

LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any member of the Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by the Group within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date which were, or might be, material:

- (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 had 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”) at a consideration of HK\$18,000,000 to Platinum Tools Trading Limited which had been completed; and
- (iii) the underwriting agreement dated 14 January 2009 between the Company and Shenyin Wanguo Capital (H.K.) Limited in relation to the underwriting and other arrangements in respect of the open offer for new Shares on the basis of one new Share for every two existing Shares as announced by the Company on 15 January 2009, which was completed in March 2009.

EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions in the Composite Offer Document:

Name	Qualification
VC Brokerage	a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities as defined under the SFO
VC Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Veda Capital	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified public accountants
LCH (Asia-Pacific) Surveyors Limited ("LCH")	Property valuers
Guangdong Everwin Law Office (廣東法制盛邦 律師事務所) ("Everwin")	PRC legal advisers

Each of VC Brokerage, VC Capital, Veda Capital, Ernst & Young, LCH and Everwin has given and has not withdrawn its written consent to the issue of the Composite Offer Document with the inclusion herein of the opinion or letter (as the case may be) and references to its name, in the form and context in which it is included.

As at the Latest Practicable Date, each of VC Brokerage, VC Capital, Veda Capital, Ernst & Young, LCH and Everwin did not have any shareholding 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.

MISCELLANEOUS

- (a) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, Cayman Islands, British West Indies and the head office and principal place of business of the Company in Hong Kong is located at Room 204, 2/F., Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.
- (b) The principal members of the Offeror's concert group comprise Charming Future Holdings Limited, Crisana and Mr. Tse Kam Pang.
- (c) The registered office of the Offeror is at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The correspondence address of the Offeror is at Room 204, 2/F, Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The sole director and the ultimate controlling shareholder of the Offeror is Mr. Tse Kam Pang.
- (d) The registered office of Crisana is at Wickhams Cay, Road Town, Tortola, British Virgin Islands. The correspondence address of Crisana is at Room 204, 2/F, Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The sole director and the ultimate controlling shareholder of Crisana is Mr. Tse Kam Pang.
- (e) The correspondence address of Mr. Tse Kam Pang is at Room 204, 2/F., Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.
- (f) VC Capital is the financial adviser to the Offeror in respect of the Partial Offer. The address of VC Capital is at 28/F, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (g) VC Brokerage is making the Partial Offer on behalf of the Offeror. The address of VC Brokerage is at 28/F, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (h) The independent financial adviser to the Independent Board Committee is Veda Capital, whose address is situated at Room 1302, 13/F., Takshing House, 20 Des Voeux Road Central, Hong Kong.
- (i) The Company's Hong Kong branch share registrar and transfer office is Tricor Tengis Limited, whose address is situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (j) The company secretary and qualified accountant of the Company is Mr. Chan Wing Kit, who is an associate of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia.

- (k) All time references contained in the Composite Offer Document refer to Hong Kong time.
- (l) In case of inconsistency, the English text of the Composite Offer Document and the Form of Approval and Acceptance shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours (public holidays excepted) at the office of the Company at Room 204, 2/F., Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong; (ii) on the website of the SFC at <http://www.sfc.hk>; and (iii) on the website of the Company at www.hkroyal.com, from the date of the Composite Offer Document until the end of the Offer Period:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2008;
- (c) the interim report of the Company for the six months ended 30 June 2008;
- (d) the letter from VC Brokerage, the text of which is set out on pages 13 to 25 of the Composite Offer Document;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 26 to 27 of the Composite Offer Document;
- (f) the letter from Veda Capital, the text of which is set out on pages 28 to 43 of the Composite Offer Document;
- (g) the valuation report on property interests of the Group prepared by LCH, the summary report of which is set out in Appendix III to the Composite Offer Document;
- (h) the letter of consent from each of VC Brokerage, VC Capital, Veda Capital, Ernst & Young, LCH and Everwin referred to in the paragraph headed “Experts and consents” in this Appendix; and
- (i) each of the material contracts mentioned in the section headed “Material Contracts” in this Appendix.