* For identification purpose only

FAVA INTERNATIONAL HOLDINGS LIMITED
名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code : 8108

Annual Report
2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Ge
Mr. Zhao Guo Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1005, 10/F., C.C. Wu Building,
302-8 Hennessy Road,
Wanchai,
Hong Kong

AUDIT COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

REMUNERATION COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

COMPLIANCE OFFICER

Mr. Li Ge

AUTHORISED REPRESENTATIVES

Mr. Li Ge
Mr. Zhao Guo Wei

COMPANY SECRETARY

Mr. Chan Yuk Hiu, Taylor

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street,
Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

HONG KONG LEGAL ADVISER

Loong & Yeung Solicitors
Suites 2201-2203, 22/F,
Jardine House,
1 Connaught Place,
Central,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark,
11 Pedder Street,
Central,
Hong Kong

GEM STOCK CODE

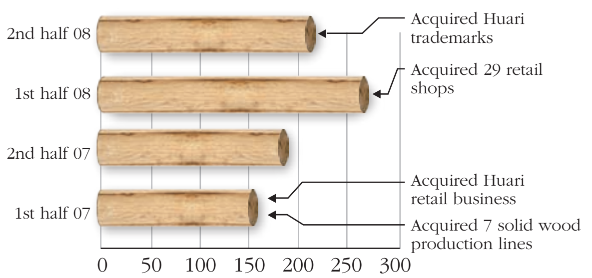
8108

PRINCIPAL BANKERS

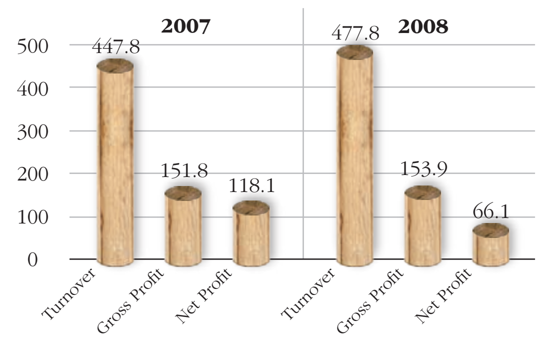
The Hongkong and Shanghai Banking
Corporation Limited

FINANCIAL HIGHLIGHTS

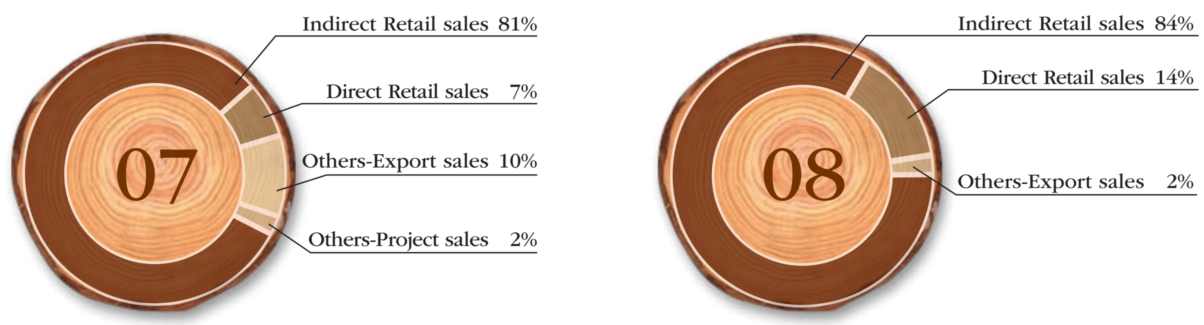
Turnover
(HK$ Million)



Turnover and Profit
(HK$ Million)

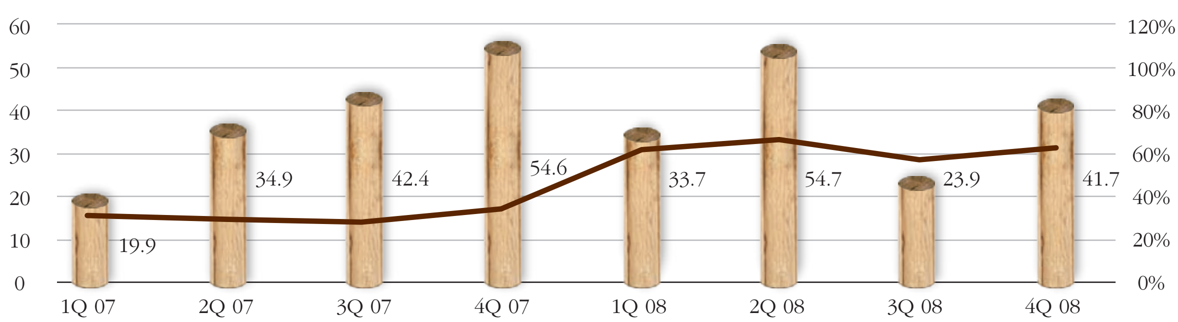


Group's turnover



Gross Profit
(HK$ Million)

GP Ratio



CORPORATE MILESTONES

2008

Jan

Entered a number of letter of intents for the proposed acquisition of 92 furniture retail shops under Huari brand in the PRC.

Mar

Acquired 20 profitable solid wood furniture retail shops under Huari brand located in Dalian, Chongqing, Chengdu and Shanghai, the PRC at a range of three to four times of price-to-earning depending on the audited net profit of these retail shops for the year ending 31 March 2009.

Jun

Acquired 9 profitable solid wood furniture retail shops under Huari brand located in Bejing, the PRC at a range of three to five times of price-to-earning depending on the audited net profit of these retail shops for the year ending 31 March 2009.

Jul

To acquire 9 registered trademarks and 1 trademark under the process of application under Huari brand. The consideration of such acquisition shall not exceed RMB93,560,000 or shall not exceed 106,318,182 shares of the Company, and shall be paid on or before 31 December 2014.

The Huari trademark under the process of application

One of the registered Huari trademarks

Retail Store

Retail Store

CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the Board of Directors (the "Board"), I am pleased to report the annual results of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2008.

BUSINESS AND FINANCIAL OVERVIEW

Year 2008 was one year of steady growth for the Group. The Group successfully completed three important acquisitions, two of them relating to the "Huari" solid wood brand furniture business and an official acquisition to the "Huari" brand.

China experienced the rare snowstorm and Sichuan earthquake in 2008, and the global financial crisis, all these has certain impact on the group's solid wood furniture retail business. The Group recorded a turnover of approximately HK$477.8 million for the year ended 31 December 2008 (2007: HK$447.8 million), representing a year-on-year growth of 6.7%, while net profit attributable to shareholders reached HK$66.1 million, posting a reduction of 44% as compared to HK$118.1 million in 2007.

ACQUISITIONS DURING THE YEAR

Following the acquisition by the Group of Lang Fang Huari Furniture International Exhibition Center (Hall A) in year 2007 which commence the furniture retail business of the Group, in 2008, the Group further successfully acquired including 20 solid wood furniture retail shops in Dalian, Chongqing, Chengdu and Shanghai that were owned by Mr.Xiu Xianliu and 9 solid wood furniture retail shops owned by Mr. Zhou Xu En in Bejing. The Group's direct retail business grew further.

PROSPECTS

In addition to further expansion of nationwide franchise network through franchising strategy, we are planning to widen the Group's retail presence organically by establishing more self-owned flagship stores and outlets that will exclusively sell products carrying the Huari brand and Jixiangniao brand. We believe that this strategy will facilitate our efforts to fully meet the needs of end-users and quickly capture the booming solid wood furniture market while maximizing shareholder value through higher returns.

CHAIRMAN'S STATEMENT

In the short to medium-term, we believe that the Group's furniture manufacturing business will continue to be an important element for growth in terms of both turnover and profitability. To cope with the increased turnover that will arise from the Group's expansion strategies, we have continued our prudent steps towards improving productivity levels, and the optimization and re-organization to our production lines and retail networks.

Looking forward, the Group will continue to employ the strategy of selling our products under multiple brand names. The Group's capabilities in production and retailing have been enhanced through a series of successful acquisitions in the past few years. Leveraging on its renowned brand name, strong management expertise and nationwide sales network, the Group will continue to achieve remarkable returns for shareholders.

I would like to thank all shareholders and Board members for their unswerving support and confidence. I also express my sincere gratitude to our customers and business partners for their continued support, as well as to my colleagues and staff for all their dedication, loyalty and excellence.

Li Ge
Chairman and Chief Executive Officer

Hong Kong, 25 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year, China was once hit by a rare snowstorm that affected more than 20 provinces, municipalities and autonomous regions, and the Sichuan earthquake in May. During the Olympic Games and the Paralympic Games in August and September, the traffic restrictions in Beijing and Hebei regions as well as Chinese residents' passion for the games also dampened residents' purchasing desire for furniture, which in turn hit the furniture sales market heavily. In addition, the macro economic control initiatives aimed at the real property sector during the second half of the year had mitigated, to a certain extent, the demand for furniture in "first-tier" cities and the pace of the PRC's economic growth, posing an array of challenges to enterprises in Mainland China. Though the Group's possession of an extensive retail network covering a total of more than 200 cities in the PRC to date, the overall retail business was struck at certain level. Fortunately, the Group has gradually reduced its export proportion in the overall sale from last year, so the impact of the global financial turmoil induced by the US sub-prime mortgage crisis is limited to the Group.

From the analysis of the consumers in the mid-to-high-end solid wood furniture sector, since residents in the "second – and third-tier" cities in the Mainland are less involved in stock market and property market speculation, and there is a lack of supply of solid wood furniture in these cities and even in all parts of the PRC by manufacturers like Huari that possesses a brand of more than 15 years' historical standing, Huari's business growth and development in these cities are particularly encouraging. However, sales by the Group declined remarkably since August in cities such as Beijing and Shanghai. In view of its direct sale shops mainly located in "first-tier" cities and the loss recorded by the direct retail business as the impact of the prevailing global financial turmoil, the Group switched its focus to the indirect retail business, and is considering to contract out the operation activities of its direct sale shops and close down those poorly-managed shops.

With respect to the regional expansion of new markets, the Group will gain access through its franchising network to numerous "second – and third-tier" cities with robust potential purchasing power but not yet covered by the network to create demands and expand its mid-to-high-end solid wood furniture sector.

Generally speaking, given the particularity, high threshold and enormous space for market expansion of the mid-to-high-end solid wood furniture sector in the PRC as


well as the leading edge in terms of the style design, brand reputation, product quality and retail network of Huari solid wood furniture, the Group was still able to maintain stability under such a tough environment.

Total turnover amounted to approximately HK$477.8 million during the current year, representing an increase of 6.7% over year 2007.

The Group focuses on the Chinese domestic retail market, with approximately 98% of the turnover derived from the PRC retail-related businesses, of which the franchising business accounts for approximately 84% and the self-owned shop business takes up approximately 14%.

During the year, total gross profit was approximately HK$153.9 million, representing a gross profit margin of 32.2%. Furthermore, in order to fasten the cash recalling, the Group has also provided some sales preferential benefit to customers, such as providing a certain amount of sales discount for those customers who prepaid partially for their orders before a designated date, and led to a slight drop in gross profit margin compared with last year.

The Group increased the expenses on marketing and management so as to build up its brand image, which in turn serve to enhance its competitive edge and strengthen its leading position in the market, and therefore the net profit in year 2008 dropped by 44% as compared with last year to be only approximately HK$66.1 million, the net profit ratio was 13.8%.

LETTERS OF INTENT

On 7 January 2008, the Group has entered into letters of intent with Mr. Zhou Xu En, Mr. Xiu Xianliu, Mr. Cheng Pishuang, Mr. Pan Yongsheng, Mr. Wu Kemin, Mr. Pan Juncheng, Mr. Yang Yukai, Mr. Ren Kewei, Mr. Liu Qianji, Mr. Liu Lianghou and Mr. Liu Xiaodong respectively for the proposed acquisition of the furniture retail business of a total of 92 furniture retail shops owned and/or operated by the above-mentioned persons in the PRC which are distributing furniture products of Huari brand. The letters of intent set out the basic understanding between the parties of the proposed acquisition. The proposed consideration is to be determined with reference to the audited net profits for the year ended 31 December 2008 of the relevant target business, multiplied by a certain price-to-earnings ratio ranging from 4 to 6 times with a cap set on the proposed consideration of each target business. For further details, please refer to the Company's announcement dated 8 January 2008.

ACQUISITION OF CERTAIN FURNITURE RETAIL BUSINESS

Furniture Retail Business of Mr. Xiu Xianliu

On 18 February 2008, the Group and Mr. Xiu Xianliu entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the furniture retail business for the year ending 31 March 2009 multiplied by 3 to 4 times. However, the consideration will not exceed RMB48,000,000 in any event. It is another expansion of the Group to furniture direct retail business after its first step into the furniture direct retail business through the acquisition of the furniture assets and retail business in Lang Fang Huari Furniture International Exhibition Center (Hall A) in March 2007.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement dated 19 February 2008 and circular dated 7 March 2008 respectively.

Furniture Retail Business of Mr. Zhou Xu En

On 6 June 2008, the Group and Mr. Zhou Xu En entered into an acquisition agreement, pursuant to which the Group conditionally agreed to acquire certain furniture retail business at a consideration equal to the audited net profits of the furniture retail business for the year ending 31 March 2009 multiplied by 3 to 5 times. However, the consideration will not exceed RMB35,000,000 in any event.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement dated 6 June 2008 and circular dated 23 June 2008 respectively.

ACQUISITION OF TRADEMARKS

On 20 June 2008, the Group and Lang Fang Huari Furniture Joint Stock Co., Ltd* (廊坊華目傢俱股股份有限公司)("Huari Furniture") entered into a trademarks transfer agreement, pursuant to which the Group conditionally agreed to acquire (i) a trademark under the process of application with the PRC Trademarks Bureau made by Huari Furniture pending the approval of the PRC Trademarks Bureau; and (ii) 9 trademarks registered with the PRC Trademarks Bureau by Huari Furniture at a consideration equal to 10% of the audited net profit before tax of Langfang Huari Hengyu Home Co., Ltd* (廊坊華日恒宇家居有限公司)("Langfang Hengyu") for the year ending 31 December 2013 minus the balance of the prepaid fees as at 30 June 2008 in the amount of RMB6,440,000 paid by Lang Fang Tian Feng Home Co., Ltd* (廊坊天豐家居有限公司)("Langfang Tianfeng") and Langfang Hengyu under the trademark licence contracts made between Huari Furniture and Langfang Hengyu and Langfang Tianfeng respectively. However, the consideration will not exceed RMB93,560,000 in any event.

So far as permitted by the applicable laws and regulations, the Group shall pay the consideration by way of allotment and issue of fully paid new shares to Huari Furniture or its nominee on or before 31 December 2014. The number of consideration shares (assuming no subdivision or consolidation of shares will take place from 26 June 2008 to the date of allotment of the consideration shares) will not exceed 106,318,182 shares.

The acquisition constitutes a discloseable transaction under the GEM Listing Rules. For further details, please refer to the Company's announcement and circular dated 26 June 2008 and 16 July 2008 respectively.

As at 31 December 2008, the transfer of titleship of trademarks is still in progress.

Franchised Retail Shop Business

With a well-established and stable franchising system under this existing model, the Group enjoys the autonomy in the direct control over the end-user retail market so as to fully utilize and capitalize on the advantages of franchisees in different regions.

Turnover of the Group's PRC franchising business for the Huari solid wood furniture segment amounted to approximately HK$391,986,000 in 2008, representing an increase of 7.9% over the last year.

The regional expansion of new markets in future has to rely upon new local franchisees. It is because only through our well-established franchising model that the Group can actually capitalize on the advantages of these local franchisees while minimizing the need for management from the Group's marketing headquarters, thus facilitating the Group to leverage on business opportunities for opening up new markets more rapidly and securely.

As a result of the success of the Huari franchising model, the Jixiangniao (Lucky Bird) fabric furniture business, introduced early this year, was introduced into the Group to target at the young people's market. The major business model of Jixiangniao (Lucky Bird) is that:

1. The retail pricing is determined by the Group's marketing headquarters;

2. Franchised shops must sell only the products carrying the Group's brands;

3. The discount policy, boost sales campaigns, promotion, nationwide advertising and other matters for all franchised shops are directly and exclusively managed by the Group's marketing headquarters; and

4. Fitting-out works, furnishing, layout, staff training and other matters in respect of franchised shops must be carried out in strict compliance with the rules of the Group's marketing headquarters.

Upon completion of re-modifications to the retail network in the first quarter, turnover of Jixiangniao (Lucky Bird) increased from approximately HK$9,537,000 in the second quarter to approximately HK$10,186,000 in the fourth quarter. Although the Jixiangniao (Lucky Bird) fabric furniture business targeted at young people accounts for only around 7.2% of the Group's overall businesses, it plays a vital role for the Huari mid-to-high-end solid wood furniture segment in the initial exploration of access to the young people's market in future.

Self-owned Direct Sale Shop Business

In August and September, 2008, the traffic control imposed during the Olympic Games events held in Beijing and Hebei regions, and the weakened desire of the Mainland residents for purchasing furniture due to their passion for the Olympic Games, compounded by the impact of the PRC's macro economic control initiatives and the global financial turmoil, though the overall direct sales business recorded an approximately HK$24,995,000 net profit, some direct sale businesses recorded losses. This has forced the Group to shrink its management scope of direct sale shops from the fourth quarter and to focus its human and financial resources on internal management by planning to contract out the operation activities of direct sale shops to its existing teams in the future in order to mitigate operation risks. The Group will step up the development of the franchised retail shop business which has a relatively low risk.

PROSPECT

The management believes that the PRC furniture is highly fragmented without dominant player in the market. Due to the fierce competition in the furniture market, the management believes that the industry consolidation has been continued to take place in coming few years. As such, the management will continue to make every effort to enhance operational efficiency and become a market consolidator by acquiring other potential furniture players as one of the way of strengthening our product mix and distribution network.

A lot of domestic furniture enterprises closed down because of serious atrophy in exports during the year 2008 global financial crisis. If the Group can capture the opportunity to acquire some furniture business with revaluation potential and restructure its business, there shall be the chance to emerge stronger from current crises.

FINANCIAL REVIEW

The Group generated approximately HK$477,800,000 in total revenue, representing a growth of 6.7% as compared with year 2007.

The turnover can be further analyzed as follow:

	2008		2007		
	HK$ million	%	*HK$ million*	%	*Changes*
PRC indirect retail sales	**403.5**	**84%**	364.7	81%	10.6%
PRC direct retail sales	**64.9**	**14%**	31.8	7%	104.1%
PRC sales to different projects	**–**	**–**	7.1	2%	(100%)
Export sales	**9.4**	**2%**	44.2	10%	(78.7%)
Total	**477.8**	**100%**	447.8	100%	

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 31 December 2008, cash and bank balances of the Group was approximately HK$54,977,000 (2007: HK$55,477,000), approximately 99% of the Group's cash was denominated in Renminbi and 1% of the Group's cash was denominated in Hong Kong Dollars. The exposure to exchange fluctuation was minimal.

The Group has no bank borrowings throughout the year under review.

As at 31 December 2008, total borrowing of the Group amounted to approximately HK$60,000 (2007: HK$77,000), representing obligation under a finance lease contract with an interest rate of approximately 5% per annum and average lease term of approximately five years.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2008, the Group had employed 5 staffs in Hong Kong and 527 staffs in PRC (as at 31 December 2007: 6 staffs in Hong Kong and 226 staffs in PRC), they were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the year 2008 amounted to approximately HK$13,360,000 (2007: HK$5,964,000).

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

In addition, for the twelve months ended 31 December 2008, the Group hired an average monthly number of 1,494 workers through the labour service contracts signed by Langfang Hengyu with Lang Fang Huari Furniture Joint Stock Co., Limited (2007: The monthly average of workers hired by the Group were 2,104). The monthly labour service payment to be made by the Group is calculated on the basis of 6.5% over the value of the finished goods warehoused each month. For the year ended 31 December 2008, the average monthly labour service payment made by Langfang Hengyu was approximately HK$2,045,000. The workers hired through the labour service contracts did not enjoy the benefits available to the eligible employees of the Group. (2007: The average monthly labour service payment made by the Group was approximately HK$1,827,000).

CHARGE ON GROUP ASSETS

Save as the finance lease contract for the Group's office equipment, the Group did not have any other charge on its assets as at 31 December 2008. As at 31 December 2007, save as the finance lease contract for the Group's office equipment, the bank deposits of approximately HK$2,799,000 was pledged as security for the banking facilities granted to the Group.

GEARING RATIO

As at 31 December 2008, the Group's gearing ratio was 0.01% representing a percentage of obligations under finance lease over shareholders' equity (2007: 0.02%), and the net current assets was approximately HK$179,903,000 (2007: HK$171,549,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the exposure to exchange fluctuation was not material and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2008.

As at 31 December 2007, the Group had the following contingent liabilities:

On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of Sun-iOMS Maintenance Limited, a former indirect wholly-owned subsidiary disposed of by the Group on 27 July 2006, guaranteeing that the income accrued to Sun-iOMS Maintenance Limited arising from sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, Sun-iOMS Maintenance Limited and the Company took legal action against the abovementioned independent third party and the two executive directors resigned in 2001 ("Ex-executive Directors") in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. The Company has reached an out of court settlement with the Ex-executive Directors (the "Settlement") on 20 July 2007. In the opinion of the Directors, the financial effect of the Settlement could be ascertained only when the amount of legal costs to be paid, pursuant to the Settlement could be agreed upon or taxed by the Court, the Group has already made a provision of HK$670,000 (being the amount stated in the draft Bill of Costs dated 14 September 2007 provided by the legal advisors of the Ex-executive Directors) for such legal cost. In the opinion of the Company's special legal advisors in respect of the above litigation, as the matter now stands, there is no other damage suffered by the Company. In the opinion of the Directors, save as the abovementioned provision of HK$670,000, no other provision for the Group's exposure to the above litigation will be made as at 31 December 2007. The Settlement was finalised in 2008 and there was no more provision as at 31 December 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 41, was appointed as an executive director of the Company on 31 August 2006. He obtained a diploma in financial accountancy and a diploma in law from Hebei University, after that, he obtained a master of science in engineering from Wuhan Industry University (currently known as Wuhan University of Technology). Past experience includes being the executive director and senior consultant of Lang Fang Huari Furniture Joint Stock Co. Limited ("Huari Furniture"). Mr. Li has experience in the management of PRC listed company and Hong Kong listed company, and in the management of production and sales of household products in China. Mr. Li became a member of Chinese Institute of Certified Public Accountants in 1994, and is now a senior consultant of Beijing China Regal United Certified Public Accountants. Mr. Li has joined our Group since March 2006, he now holds directorship in Alwin Asia Investment Limited and Tedwood International Limited which are a directly whollyowned subsidiary and an indirectly wholly-owned subsidiary of the Company respectively.

Mr. Zhao Guo Wei, aged 46, was appointed as an executive director of the Company on 6 July 2006. He obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School, and has over twenty-one years of experience in management of household products manufacturing including production flow path control and production cost control. Past experience includes being the General Manager of Quality Control Department of Huari Furniture. Mr. Zhao is now the Vice General Manager of Lang Fang Tian Feng Home Co. Limited. Lang Fang Tian Feng Home Co. Limited is an indirectly wholly-owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong, aged 48, was appointed as an independent non-executive director of the Company on 12 June 2006. He graduated at University of Sunderland, England, he is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee is now a director of Lynks CPA Limited, he has over twenty-one years of experience in accountancy and financial management. Mr. Lee is also a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Dongli, aged 36, was appointed as an independent non-executive director of the Company on 1 September 2005. He is formerly a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Limited. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over 12 years working experience. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Mr. Yang Jie, aged 27, was appointed as an independent non-executive director of the Company on 30 June 2006. He is now an engineer of Technical Service Support Department of Epson (China) Co., Limited. Mr. Yang graduated from Beijing Petrochemistry Institute majoring in Process Equipment and Control Engineering. He has over four years of working experience. In addition, Mr. Yang has taken the training course on Human Resources Management and Listed Company Regulations held by Ren Ming University, and has also taken the training course on Business Administration held by Qing Hua University. Mr. Yang is also a member of the Audit Committee and Remuneration Committee of the Company.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, aged 31, is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, he has worked in certified public accountants firms and participated in various audit and accounting works. He has over eight years experiences in professional accounting practices.

The Directors have pleasure in presenting their report and the audited financial statements of FAVA International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in Note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in Note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at the balance sheet date are set out in the financial statements on pages 35 to 37.

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2008 (2007: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 99 to 100. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment the Group during the year are set out in Note 16 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in Notes 31 and 32 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2008. The Company or any of its subsidiaries has not purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company has no reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981 and the Company's bye-laws.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 20.1% of the total sales for the year and sales to the largest customer included therein amounted to 12.3%. Purchases from the Group's five largest suppliers accounted for 14.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to 3.1%.

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

DONATION

No donation was made by the Group during the year (2007: Approximately RMB200,000).

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in Note 3 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Li Ge
Mr. Zhao Guo Wei

Independent non-executive Directors:

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

In accordance with bye-laws 86(2) and 87(1) of the Company's bye-laws, Messrs. Li Ge, Zhao Guo Wei, Lee Yuen Kwong, Yang Dongli and Yang Jie will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Yang Dongli, and Mr. Yang Jie, and as at the date of this report still considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the company secretary of the Company are set out on pages 17 to 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive Directors, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, are appointed for an initial term of one year renewable by mutual agreement in writing two months in advance to the expiry of the initial term of appointment for successive terms of one year.

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

DIRECTORS' REMUNERATION

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

Details of the Directors'remunerations are set out in Note 10 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

As at 31 December 2008, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 6 May 2002.

No options under the Share Option Scheme had been granted to any persons during the period under review and up to the date of this report.

As at 31 December 2008, there are no outstanding options was granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "Directors' and chief executive's interests and short positions in shares, underlying shares" below and the share option scheme as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

DISCLOSURE AND OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK$0.002 each of the Company

	Number of shares held, capacity and nature of interest					
Name of director	**Directly beneficially owned**	**Through Spouse or minor children**	**Through controlled corporation**	**Beneficiary of a trust**	**Total**	**Percentage of the Company's total issued share capital**
Mr. Li Ge	37,012,000	–	–	–	37,012,000	3.07%

Save as disclosed above, as at 31 December 2008, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests of short positions in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

So far as were known to the Directors or chief executive of the Company, as at 31 December 2008, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of HK$0.002 each of the Company

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Approximate Percentage of the Company's issued share capital *(Note 1)*
Substantial Shareholders				
True Allied Assets Limited		Beneficial owner	351,518,000	29.22%
Ms. Huang Ye-hua	*2*	Interest of controlled corporation	351,518,000	29.22%
Arisaig Greater China Fund Limited	*3*	Beneficial owner	120,420,000	10.01%
Arisaig Partners (Mauritius) Limited	*3*	Investment manager	120,420,000	10.01%
Cooper Lindsay William Ernest	*3*	Interest of controlled corporation	120,420,000	10.01%
Other Shareholders				
Mr. Zhou Xu En	*4*	Beneficial owner	109,382,430	9.09%
		Interest of controlled corporation	106,318,182	8.83%
Lang Fang Huari Furniture Joint Stock Co., Ltd. (廊坊華日傢俱股份有限公司) ("Huari Furniture")	*4*	Beneficial owner	106,318,182	8.83%
Ms. Xiu Jun Cheng	*4*	Interest of controlled corporation	106,318,182	8.83%
Mr. Zhou Tian Tang	*4*	Interest of controlled corporation	106,318,182	8.83%
Sino Hope Investments Limited		Beneficial owner	69,953,330	5.82%
Mr. Zhao Jiangong	*5*	Interest of controlled corporation	69,953,330	5.82%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 1,202,799,970 issued shares as at 31 December 2008.

(2) Ms. Huang Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.

(3) 120,420,000 Shares are held by Arisaig Greater China Fund Limited under management by Arisaig Partners (Mauritius) Limited in its capacity as an investment manager and Cooper Lindsay William Ernest is interested in the 120,420,000 Shares through its controlled corporation.

(4) The 106,318,182 Shares are the maximum number of consideration shares which may be allotted and issued to Huari Furniture or its nominee on or before 31 December 2014 pursuant to the trademarks transfer agreement dated 20 June 2008. Each of Ms. Xiu Jun Cheng, Mr. Zhou Tian Tang and Mr. Zhou Xu En is interested by virtue of their respective beneficial interest as to 48.16%, 25.93% and 23.91% in Huari Furniture. Mr. Zhou Tian Tang and Ms. Xiu Jun Cheng are parents of Mr. Zhou Xu En.

(5) Mr. Zhao Jiangong is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.

Save as disclosed above, as at 31 December 2008, the Board is not aware of any other persons, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company or their respective associates has any interest in a business which competes or might compete with the business of the Group.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Since the functional currencies of the Group's operations are HK Dollars and RMB, the Board considers that the exchange rate risk of the Group is minimal.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rule 5.34 of the GEM Listing Rules during the year under review.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in Note 39 to the financial statements.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has established an audit committee on 7 July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the Directors attending the board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by Hong Kong Institute of Certified Public Accountants in February 2002, were adopted as written terms of reference for the audit committee of the Company. As at 31 December 2008, the audit committee comprised three members, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, being independent non-executive Directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for several times during the year. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2008 and provided advise and recommendations to the Board. After the review of the financial statements, the members of the audit committee were of the opinion that such statements complied with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

AUDITORS

Messrs. HLB Hodgson Impey Cheng and Messrs Cheung & Siu, Certified Public Accountants ("CS") were appointed as joint auditors of the Company on 21 March 2005 in succession to Messrs RSM Nelson Wheeler which resigned on 27 January 2005.

Except CS which resigned as joint auditors of the Company on 20 November 2006, there have been no other changes of auditors in the past three years.

Messrs HLB Hodgson Impey Cheng retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Li Ge
Executive Director

Hong Kong
25 March 2009

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"). During the year, save as disclosed in the paragraphs headed "Chairman and the Chief Executive Officer" (Code Provision A.2.1) below, the Company complied with and did not deviate from the code provisions as set out in the CG Code.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2008, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors (one is the chairman and chief executive officer of the Company), and three are independent non-executive Directors. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members during the year ended 31 December 2008 were:

Executive Directors

Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei

Independent non-executive Directors

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

The independent non-executive Directors should be responsible for making independent decisions in relation to the matters such as strategy, performance, conflict of interest and management process of the Group, in order to ensure the interest of the shareholders as a whole has been considered properly. Furthermore, in accordance with the requirement of the GEM Listing Rules, the audit committee was chaired by an independent non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by the Section 5.09 of the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who attend Board meetings.

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

The Board held 8 meetings in 2008. Details of the attendance of the Board are as follows:

Name of Directors	**Meetings attended/held**	**Attendance rate**
Executive Directors		
Mr. Li Ge (chairman and chief executive officer)	8/8	100%
Mr. Zhao Guo Wei	8/8	100%
Independent non-executive Directors		
Mr. Lee Yuen Kwong	8/8	100%
Mr. Yang Dongli	8/8	100%
Mr. Yang Jie	8/8	100%

The following matters were discussed in the board meetings held in 2008:

(1) to consider and approve the acquisition of 20 furniture retail businesses of Mr. Xiu Xianliu;

(2) to consider and approve the quarterly, interim and annual results of the Group;

(3) to consider and approve the acquisition of 9 furniture retail businesses of Mr. Zhou Xu En;

(4) to consider and approve the acquisition of Huari trademarks of Lang Fang Huari Furniture Joint Stock Co., Ltd;

(5) to approve the cancellation of the holding company's Hang Seng bank accounts;

All directors were given at least 14 days notice for a regular board meeting. Agenda and relevant documents of the meeting was given to all the Directors before the date of the board meeting; the initial draft of the minutes of the board meeting was sent to the Directors for reviewing and providing comments; and the final draft of the minutes will be sent to the Directors for signature and records.

Directors can access to the company secretary or the intermediary for advices with a view to ensuring that board procedures and all applicable rules and regulations are followed. The minutes of board meeting were kept by the company secretary, and such minutes were opened for inspection at any reasonable time on reasonable notice by any Director.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (CODE PROVISION A.2.1)

Mr. Li Ge ("Mr. Li") assumes the roles of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

– the Board acts in the best interests of the Group; and

– the Board functions effectively, and that all key and appropriate issues are properly briefed to and discussed by the Board.

The Group deviates from Code Provision A.2.1 in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 15 to the GEM Listing Rules, the roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

– the three independent non-executive Directors form the majority of the five-member Board;

– the Audit Committee is composed exclusively of independent non-executive Directors; and

– the independent non-executive Directors could have free and direct access to the Company's external auditors and independent professional advice whenever necessary.

Mr. Li has considerable industry experience. He is dedicated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman, so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and their progress, for the purpose of facilitating open dialogue between the Board and the management.

In order to comply with the CG Code, the Company will seek for proper candidate to serve as the chief executive officer of the Company.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Each of the independent non-executive Directors was appointed of an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial term appointment for successive terms of one year. Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong (Chairman), Mr. Yang Dongli and Mr. Yang Jie.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

– to determine the remuneration packages of all executive Directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of executive remuneration package include basic salary, discretionary bonus and share option. The emoluments of executive Directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive Directors. The remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held.

During the year, the remuneration committee has held one meeting to review the existing remuneration packages of the existing executive directors and senior management of the Company, and recommend to freeze the remuneration packages for the existing executive director and senior management of the Company for one year. All three committee members have attended the meeting.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. The Board is empowered under the Company's byelaws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year ended 31 December 2008, because there is no change in board membership, the Board has no meeting for the nomination of directors.

AUDITORS' REMUNERATION

An amount of approximately HK$500,000 (2007: HK$500,000) was charged to the Group's income statement for the year ended 31 December 2008 as auditors' fee.

The nature of audit and non-audit services provided by HLB Hodgson Impey Cheng ("HLB") and fees paid to HLB set out below:

	To HLB
	HK$'000
Audit services	500
Tax	8
	508

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie. The chairman of the Audit Committee is Mr. Lee Yuen Kwong.

The Audit Committee held four meetings in 2008, which were attended by all three members. The Group's 2008 quarterly reports, 2008 half-yearly report, 2007 and 2008 annual results and 2007 and 2008 annual reports have been reviewed by the Audit Committee, which was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2008, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the auditors' report of the annual report of the Company for the year ended 31 December 2008.

COMMUNICATIONS WITH SHAREHOLDERS

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
FAVA INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 98 which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted out audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 25 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**477,827**	447,814
Cost of sales		**(323,895)**	(296,060)
Gross profit		**153,932**	151,754
Other revenue	7	**3,496**	935
Other income	8	**172**	433
Impairment loss in respect of goodwill	17	**(11,868)**	–
Fair value changes on financial assets at fair value through profit or loss		**–**	(288)
Selling and distribution costs		**(43,521)**	(17,193)
Administrative expenses		**(35,985)**	(16,140)
Other operating expenses		**(84)**	(416)
Profit from operations	8	**66,142**	119,085
Finance costs	9	**(4)**	(3)
Profit before taxation		**66,138**	119,082
Taxation	12	**–**	(984)
Profit for the year		**66,138**	118,098
Profit for the year attributable to equity holders of the Company		**66,138**	118,098
Earnings per share	15		
– Basic and diluted (HK cents per share)		**5.50**	9.98

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*16*	**121,720**	76,640
Goodwill	*17*	**64,006**	75,108
Intangible assets	*18*	**10,778**	7,936
Long term prepayments	*19*	**11,288**	14,165
		207,792	173,849
Current assets			
Inventories	*21*	**143,531**	101,872
Trade and bills receivables	*22*	**38,826**	22,338
Prepayments, deposits and other receivables	*23*	**50,539**	76,396
Pledged bank deposits	*24*	–	2,799
Cash and bank balances	*24*	**54,977**	55,477
		287,873	258,882
Less: Current liabilities			
Trade payables	*25*	**20,354**	19,394
Other payables and accruals	*26*	**42,531**	16,968
Receipts in advance	*27*	**44,120**	19,399
Amount due to a director	*28*	**949**	–
Consideration payable for acquisition – due within one year	*29*	**–**	31,556
Obligations under finance lease – due within one year	*30*	**16**	16
		107,970	87,333
Net current assets		**179,903**	171,549
Total assets less current liabilities		**387,695**	345,398
Less: Non-current liabilities			
Consideration payable for acquisition – due after one year	*29*	**–**	43,552
Obligations under finance lease – due after one year	*30*	**44**	61
		44	43,613
Net assets		**387,651**	301,785
Capital and reserves			
Share capital	*31*	**2,405**	2,405
Reserves	*33(a)*	**385,246**	299,380
Total equity attributable to equity holders of the Company		**387,651**	301,785

Approved by the Board of Directors on 25 March 2009 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	*20*	**78**	78
		78	78
Current assets			
Amounts due from subsidiaries	*20*	**108,988**	111,670
Prepayments, deposits and other receivables	*23*	**82**	227
Cash and bank balances	*24*	**156**	23
		109,226	111,920
Less: Current liabilities			
Amount due to a subsidiary		**5,403**	–
Other payables and accruals	*26*	**951**	2,111
		6,354	2,111
Net current assets		**102,872**	109,809
Net assets		**102,950**	109,887
Capital and reserves			
Share capital	*31*	**2,405**	2,405
Reserves	*33(b)*	**100,545**	107,482
Total equity		**102,950**	109,887

Approved by the Board of Directors on 25 March 2009 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** HK$'000	**(Accumulated loss)/ retained earnings** HK$'000	**Exchange reserve** HK$'000	**Statutory reserves** HK$'000	**Total equity** HK$'000
At 1 January 2007	2,005	47,267	36,000	(30,604)	1,114	7,388	63,170
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	15,606	–	15,606
Total income for the year recognised in equity	–	–	–	–	15,606	–	15,606
Profit for the year	–	–	–	118,098	–	–	118,098
Total income and expense for the year	–	–	–	118,098	15,606	–	133,704
Transfer to statutory reserves	–	–	–	(18,391)	–	18,391	–
Premium arising from issue of new shares *(Note 31)*	–	107,600	–	–	–	–	107,600
Issue of shares *(Note 31)*	400	–	–	–	–	–	400
Share issue expenses *(Note 31)*	–	(3,089)	–	–	–	–	(3,089)
At 31 December 2007 and 1 January 2008	2,405	151,778	36,000	69,103	16,720	25,779	301,785
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	19,728	–	19,728
Total income for the year recognised in equity	–	–	–	–	19,728	–	19,728
Profit for the year	–	–	–	66,138	–	–	66,138
Total income and expense for the year	–	–	–	66,138	19,728	–	85,866
Transfer to statutory reserves	–	–	–	(15,702)	–	15,702	–
At 31 December 2008	2,405	151,778	36,000	119,539	36,448	41,481	387,651

The accompanying notes form an integral part of these financial statements.

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**66,138**	119,082
Adjustments for:			
Interest income	7	**(25)**	(303)
Reversal of accruals		**–**	(199)
Reversal of provision for impairment loss of trade receivables		**–**	(179)
Loss/(gain) on disposal of property, plant and equipment	8	**1,179**	(5)
Depreciation	16	**18,598**	10,993
Amortisation of intangible assets	18	**2,757**	2,054
Amortisation of long term prepayments	19	**3,715**	3,400
Provision for impairment loss of trade receivables	22	**7,362**	304
Provision for impairment loss of other receivables	23	**16**	–
Provision for impairment loss of goodwill	17	**11,868**	–
Reversal of provision for legal cost	8	**(172)**	–
Fair value changes on financial assets at fair value through profit or loss		**–**	288
Finance costs	9	**4**	3
Foreign exchange gain		**–**	(249)
Operating cash flow before working capital changes		**111,440**	135,189
Increase in inventories		**(19,209)**	(67,523)
Increase in trade and bills receivables		**(22,263)**	(11,450)
Decrease in amount due from a former subsidiary		**–**	51
Decrease/(increase) in prepayments, deposits and other receivables		**21,100**	(29,996)
Decrease in trade payables		**(250)**	(232)
Increase in other payables and accruals		**35,378**	13,260
Increase in receipts in advance		**23,210**	4,575
Increase/(decrease) in amount due to a director		**949**	(755)
Cash generated from operations		**150,355**	43,119
Interest element on finance lease rental payments		**(4)**	(3)
Overseas taxes paid		**–**	(984)
Net cash inflow from operating activities		**150,351**	42,132

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**25**	303
Purchase of property, plant and equipment		**(56,269)**	(81,216)
Acquisition of intangible assets		**–**	(9,674)
Acquisition of household product retail business		**(27,923)**	(3,943)
Payment of contingent consideration for acquisition of household furniture retail business in prior year		**(72,096)**	–
Purchase of financial assets at fair value through profit or loss		**–**	(2,997)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	2,709
Net cash outflow from investing activities		**(156,263)**	(94,818)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	108,000
Share issue expenses		**–**	(3,089)
Decrease/(increase) in pledged bank deposits		**2,799**	(2,799)
Capital element of finance lease rental payments		**(17)**	(14)
Net cash inflow from financing activities		**2,782**	102,098
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,130)**	49,412
Cash and cash equivalents at the beginning of the year		**55,477**	1,711
Effects of exchange rate changes on the balance of cash held in foreign currencies		**2,630**	4,354
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**54,977**	55,477
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**54,977**	55,477

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

FAVA International Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. During the year, the principal activities of the Group are manufacturing and sales of household products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2008. A summary of the effect on initial adoption of these new and revised HKFRSs is set out below.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives[7]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for annual periods beginning on or after 30 June 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

A summary of significant accounting policies adopted by the Group in the preparation of the consolidated financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the consolidated financial statements is historical cost convention except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date the such control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses within the Group are eliminated on consolidation.

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

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

Intangible assets

Intangible assets acquired separately
Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets is provided on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are identified and recognised separately from goodwill where the satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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 goodwill, inventories and financial assets), the asset's recoverable amount is estimated. As asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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.

Related party transactions

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

(a) the party, directly or indirectly through one or more intermediaries, (i) control, 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);

(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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related party transactions *(Continued)*

(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.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchases 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.

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

Plant and machinery	18%
Leasehold improvements	Over the lease terms
Motor vehicles	18%
Buildings	Over the lease terms
Furniture and fixtures	20%
Office and computer equipment	30%

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

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

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

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, held-to-maturity investments 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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

All regular 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition:

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group designated certain debt securities as held-to-maturity investments. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets 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 separate 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.

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

Fair value

The fair value of investments that are actively traded in organised financial market 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 other valuation 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

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

If, 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. 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 of significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an 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 on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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, is transferred from equity to the income statement. 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

- 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified accordingly to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is an contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss classified into (i) financial liabilities held for trading and (ii) those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value, with changes in fair value recognised directly in the income statement in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals, receipts in advance and amount due to a director 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. The difference between the carrying value of the financial liability derecognised and the consideration paid is recognised in the income statement.

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 first-in, first-out or 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.

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 pledged bank deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, 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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions and contingent liabilities

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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises the tax currently payable 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 arise 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, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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:

(a) 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;

(b) from the rendering of services, when services are provided; and

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

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 those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3. 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 date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the 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.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Segment reporting

A business segment is a group if assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(a) Income tax

The Group is subject to income taxes in Hong Kong and the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

(c) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (Note 17).

The carrying amount of goodwill at the balance sheet date was approximately HK$64,006,000 (2007: HK$75,108,000) after provision for impairment loss of approximately HK$11,868,000 (2007: Nil).

(e) Impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method.

The carrying amount of intangible assets at the balance sheet date was approximately HK$10,778,000 (2007: HK$7,936,000).

(f) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significant as a result of change in market condition. Management reassess the estimations at the balance sheet date.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**110,701**	86,516
Financial liabilities		
Measured at amortised cost	**63,894**	110,877

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market risk exposures are measured by sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk management
As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group considers that there is no significant cash flow interest rate risk as the Group does not have any significant interest-bearing liabilities.

The Group's exposures to interest rates on financial liabilities are detailed in liquidity risk management section of this note.

Foreign currency risk management
Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's markets mainly located in the United States of America ("USA"), European Union and the PRC and its sales are denominated in United States dollars ("USD"), Euro dollars ("Euro") and Renminbi ("RMB") respectively whilst almost all of costs are denominated in the units' functional currency.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk management (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:–

	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**4,389**	5,006	**2,016**	5,084
Euro	**–**	–	**312**	5,760
RMB	**109,899**	48,467	**157,973**	75,508

Sensitivity analysis on foreign currency risk management

The Group is mainly exposed to the effects of fluctuation in USD, Euro and RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number below indicates a decrease in profit where the Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of the Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balance below would be positive.

	2008	2007
	HK$'000	HK$'000
Impact of USD		
Profit or loss *(Note (i))*	**119**	(4)
Impact of Euro		
Profit or loss *(Note (ii))*	**(15)**	(288)
Impact of RMB		
Profit or loss *(Note (iii))*	**(2,403)**	(1,352)

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Sensitivity analysis on foreign currency risk management (Continued)

Note:

(i) This is mainly attributable to the exposure outstanding on receivables, cash and bank balances and payables denominated in USD not subject to cash flow hedge at year end.

(ii) This is mainly attributable to the exposure outstanding on receivables and cash and bank balances denominated in Euro not subject to cash flow hedge at year end.

(iii) This is mainly attributable to the exposure outstanding on receivables, cash and bank balances and payables denominated in RMB not subject to cash flow hedge at year end.

Credit risk

As at 31 December 2008 and 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group has put in place policies to ensure that sales of products are made to recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are required to pay deposits which amounts are varied from customers to customers. In addition, receivable balances are monitored on an ongoing basis. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Company does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across geographical areas.

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow is the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	Within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
2008					
Non-derivative financial liabilities					
Trade payables	–	20,354	–	20,354	20,354
Other payables and accruals	–	42,531	–	42,531	42,531
Amount due to a director	–	949	–	949	949
Obligations under finance lease	5	16	44	60	60
		63,850	44	63,894	63,894

	Weighted average effective interest rate %	Within 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
2007					
Non-derivative financial liabilities					
Trade payables	–	19,394	–	19,394	19,394
Other payables and accruals	–	16,298	–	16,298	16,298
Obligations under finance lease	5	16	61	77	77
Contingent consideration	6.75	32,089	44,287	76,376	75,108
		67,797	44,348	112,145	110,877

Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Fair value estimation *(Continued)*

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which only includes obligations under finance leases) and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

Gearing ratio

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. During the year ended 31 December 2008, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated base on total debt and shareholders equity.

The gearing ratio as at the year end is as follows:

	As at 31 December	
	2008	2007
	HK$'000	HK$'000
Debt#	**60**	77
Shareholders' equity	**387,651**	301,785
Gearing ratio	**0.0155%**	0.0255%

\# Total debt comprises obligations under finance lease as detailed in Note 30.

6. 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 businesses 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 represent a strategic business unit that offers products and services that are subject to risks and returns which are different from those of the other business segments.

Summary details of the business segments are as follows:

(i) indirect retail of household products and others; and

(ii) direct retail of household products.

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.

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

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated items mainly comprise financial and corporate assets, tax balances and corporate and financing expenses.

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**64,883**	31,845	**412,944**	415,969	**477,827**	447,814
Segment results	**5,464**	12,064	**66,336**	115,937	**71,800**	128,001
Interest income and unallocated gains					**3,668**	265
Corporate and other unallocated expenses					**(9,326)**	(9,181)
Finance costs					**(4)**	(3)
Profit before taxation					**66,138**	119,082
Taxation					**–**	(984)
Profit for the year					**66,138**	118,098
Assets and liabilities						
Segment assets	**95,307**	93,733	**396,976**	335,801	**492,283**	429,534
Corporate and other unallocated assets					**3,382**	3,197
Total assets					**495,665**	432,731
Segment liabilities	**22,906**	6,060	**83,057**	122,445	**105,963**	128,505
Corporate and other unallocated liabilities					**2,051**	2,441
Total liabilities					**108,014**	130,946

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Direct retail of household products		Indirect retail of household products and others		Unallocated		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information								
Depreciation	**1,664**	1,143	**16,884**	9,794	**50**	56	**18,598**	10,993
Amortisation of intangible assets	**–**	–	**2,757**	2,054	**–**	–	**2,757**	2,054
Capital expenditure	**3,250**	3,048	**53,019**	78,043	**–**	125	**56,269**	81,216
Provision for impairment loss of goodwill	**11,868**	–	**–**	–	**–**	–	**11,868**	–
Provision for impairment loss of trade receivables	**206**	–	**7,156**	304	**–**	–	**7,362**	304
Provision for impairment loss of other receivables	**16**	–	**–**	–	**–**	–	**16**	–

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at the PRC, USA and European Union. All assets are located in the PRC (including Hong Kong). Over 90% of the Group's results, assets and capital expenditures are derived from operations carried out in the PRC. Accordingly, no further geographical segment information is presented in the financial statements except for turnover.

	Direct retail of household products		Indirect retail of household products and others		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sales						
The PRC	**64,883**	31,845	**403,516**	371,779	**468,399**	403,624
USA	**–**	–	**2,982**	8,791	**2,982**	8,791
European Union	**–**	–	**5,148**	34,894	**5,148**	34,894
Others	**–**	–	**1,298**	505	**1,298**	505
	64,883	31,845	**412,944**	415,969	**477,827**	447,814

Sales are allocated based on the countries in which customers are located.

7. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of household products sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Turnover:		
Indirect retail of household products and others	**412,944**	415,969
Direct retail of household products	**64,883**	31,845
	477,827	447,814
Other revenue:		
Bank interest income	**25**	303
Sundry income	**2,911**	632
Sales of raw materials	**560**	–
	3,496	935

8. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	The Group	
	2008	2007
	HK$'000	HK$'000
Cost of inventories sold	**323,895**	296,060
Fair value changes on financial assets at fair value through profit or loss	**–**	288
Auditors' remuneration	**500**	500
Depreciation on owned property, plant and equipment	**18,573**	10,964
Depreciation on property, plant and equipment held under finance lease	**25**	29
	18,598	10,993
Minimum lease payments under operating leases:		
Plant and machinery	**2,088**	3,968
Land and buildings	**15,722**	1,473
	17,810	5,441
Employee benefits expense (excluding directors' remuneration *(Note 10)*):		
Wages, salaries and other allowances	**36,996**	21,986
Pension scheme contributions	**904**	676
	37,900	22,662
Amortisation of intangible assets	**2,757**	2,054
Provision for impairment loss of goodwill	**11,868**	-
Provision for impairment loss of trade receivables	**7,362**	304
Provision for impairment loss of other receivables	**16**	-
Loss on disposal of property, plant and equipment	**1,179**	-

8. PROFIT FROM OPERATIONS *(Continued)*

	The Group	
	2008	2007
	HK$'000	HK$'000
and after crediting:		
Other income:		
Reversal of provision for impairment loss of trade receivables	**–**	179
Reversal of provision for legal cost	**172**	–
Exchange gain	**–**	249
Gain on disposal of property, plant and equipment	**–**	5
	172	433

9. FINANCE COSTS

	The Group	
	2008	2007
	HK$'000	HK$'000
Interest on obligations under finance lease	**4**	3

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Fees	**866**	644
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Pension scheme contributions	**–**	–
	866	644

During the years ended 31 December 2008 and 2007, none of the directors were granted share options under the share option scheme operated by the Company.

10. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008	2007
	HK$'000	HK$'000
Mr. Yang Dongli	**24**	19
Mr. Lee Yuen Kwong	**108**	101
Mr. Yang Jie	**24**	19
	156	139

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

(b) Executive directors and non-executive directors

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
2008				
Executive directors:				
Mr. Zhao Guo Wei	**60**	**–**	**–**	**60**
Mr. Li Ge	**650**	**–**	**–**	**650**
	710	**–**	**–**	**710**

10. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007				
Executive directors:				
Mr. Zhao Guo Wei	60	–	–	60
Mr. Li Ge	445	–	–	445
	505	–	–	505

There were no non-executive directors during the years ended 31 December 2008 and 2007.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2008 and 2007.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: one) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining three (2007: four) non-director, highest paid employees for the year are as follows:

	The Group	
	2008 **HK$'000**	2007 HK$'000
Salaries, allowances and benefits in kind	**1,782**	1,116
Pension scheme contributions	**34**	36
	1,816	1,152

11. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**3**	4

During the years ended 31 December 2008 and 2007, no share options were granted to non-director, highest paid employees in respect of their services to the Group.

No emoluments were paid by the Group to non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

12. TAXATION

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2007: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision for PRC income tax has been during the year as the Group has tax exemption in the PRC.

	The Group	
	2008	2007
	HK$'000	HK$'000
Current – Hong Kong	**–**	–
Current – PRC	**–**	984
Tax charge for the year	**–**	984

12. TAXATION *(Continued)*

A reconciliation between tax expense and accounting profit at appreciate tax rates is set out below:

	2008		2007	
	HK$'000	**%**	HK$'000	%
Profit before taxation	**66,138**		119,082	
National tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**18,313**	**27.7**	40,680	34.2
Tax exemption for a subsidiary operating in the PRC	**(23,921)**	**(36.2)**	(40,608)	(34.2)
Tax reduction for a subsidiary operating in the PRC	**–**	**–**	(649)	(0.5)
Tax effect of expenses not deductible for tax purpose	**3,941**	**6.0**	924	0.8
Tax effect of income not taxable for tax purpose	**(187)**	**(0.3)**	(229)	(0.2)
Tax loss not recognised	**1,854**	**2.8**	866	0.7
Tax charge for the year at the Group's effective rate	**–**	**–**	984	0.8

Deferred taxation

Deferred tax assets have not been recognised in respect of the following items:

	The Group		**The Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**325**	325	**17**	17
Deductible temporary differences	**3**	3	**–**	–
	328	328	**17**	17

12. TAXATION *(Continued)*

Deferred taxation *(Continued)*

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 included a loss of approximately HK$6,937,000 (2007: loss of approximately HK$8,338,000) which has been dealt with in the financial statements of the Company (Note 33(b)).

14. DIVIDENDS

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2008 (2007: Nil).

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic earnings per share amount is based on the profit for the year attributable to the ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year:

	2008	2007
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**66,138**	118,098
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,202,800**	1,183,074

The weighted average number of ordinary shares for the year ended 31 December 2008 is shares in issue. The weighted average number of ordinary shares for the year ended 31 December 2007 is shares in issue, as adjusted to reflect the share subdivision effective on 26 January 2007 and 12 September 2007.

There was no diluting event existed during the years ended 31 December 2008 and 2007.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery	Leasehold improvements	Motor vehicles	Building	Furniture and fixtures	Office and computer equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At 1 January 2007	172	51	–	–	3	282	508
Additions	80,147	–	172	–	2	993	81,314
Acquisition of business	–	3,048	–	–	–	–	3,048
Disposals	–	–	–	–	–	(34)	(34)
Exchange realignment	3,343	127	7	–	–	38	3,515
At 31 December 2007 and 1 January 2008	83,662	3,226	179	–	5	1,279	88,351
Additions	2,291	2,389	112	50,493	–	984	56,269
Acquisition of business *(Note 34)*	239	2,779	144	–	–	114	3,276
Disposals	–	(1,395)	–	–	–	(3)	(1,398)
Exchange realignment	5,275	243	14	649	–	82	6,263
At 31 December 2008	91,467	7,242	449	51,142	5	2,456	152,761
Accumulated depreciation:							
At 1 January 2007	1	41	–	–	–	227	269
Charge for the year	9,740	1,154	3	–	3	93	10,993
Disposals	–	–	–	–	–	(7)	(7)
Exchange realignment	405	47	–	–	–	4	456
At 31 December 2007 and 1 January 2008	10,146	1,242	3	–	3	317	11,711
Charge for the year	14,478	3,295	57	262	2	504	18,598
Disposals	–	(217)	–	–	–	(2)	(219)
Exchange realignment	820	114	1	3	–	13	951
At 31 December 2008	25,444	4,434	61	265	5	832	31,041
Net book value:							
At 31 December 2008	**66,023**	**2,808**	**388**	**50,877**	**–**	**1,624**	**121,720**
At 31 December 2007	73,516	1,984	176	–	2	962	76,640

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2008 was approximately HK$50,000 (2007: HK$69,000).

17. GOODWILL

The Group

	HK$'000
Cost:	
At 1 January 2007	–
Addition due to acquisition of business	75,108
At 31 December 2007 and 1 January 2008	75,108
Exchange realignment	194
Adjustments to measurement for acquisition in prior year *(Note (i))*	(3,157)
Addition due to acquisition of business *(Note 34)*	3,729
At 31 December 2008	75,874
Impairment:	
At 1 January 2007	–
Impairment loss recognised	–
At 31 December 2007 and 1 January 2008	–
Impairment loss recognised	11,868
At 31 December 2008	11,868
Carrying amount:	
At 31 December 2008	**64,006**
At 31 December 2007	75,108

Note:

(i) An adjustment of approximately HK$3,157,000 was made to the consideration of the acquisition of furniture retail business during the year ended 31 December 2007. Please refer to Note 34(d) for details.

For the purpose of impairment testing, goodwill has been allocated to individual cash generating units determined based on related segment. The carrying amount of goodwill (net of impairment losses) as at 31 December 2008 and 2007 is all allocated to the segment in direct retail business of household products.

As at years ended 31 December 2008 and 2007, with regard to the current market situation in the retail business of household products, the directors reviewed the carrying amount of goodwill arising from the acquisition of household products retail business. The recoverable amount of household products retail business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budget covering five years approved by senior management. The discount rate applied to the cash flow projections is 12% (2007: 12%) per annum.

The main factor contributing to the impairment of household products retail business cash-generating unit was the failure of the household products retail business to contribute to sales to the extent that had predicted.

17. GOODWILL *(Continued)*

The Group *(Continued)*

Key assumptions were used in the value in use calculation of the household products retail business cash-generating unit for the years ended 31 December 2008 and 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

18. INTANGIBLE ASSETS

The Group

	Trademark HK$'000
Cost:	
At 1 January 2007	–
Additions	9,674
Exchange realignment	402
At 31 December 2007 and 1 January 2008	10,076
Acquired on acquisition of business *(Note 34)*	4,836
Exchange realignment	933
At 31 December 2008	15,845
Amortisation:	
At 1 January 2007	–
Amortise for the year	2,054
Exchange realignment	86
At 31 December 2007 and 1 January 2008	2,140
Amortise for the year	2,757
Exchange realignment	170
At 31 December 2008	5,067
Carrying amount:	
At 31 December 2008	**10,778**
At 31 December 2007	7,936

The above intangible assets have definite useful lives. The above intangible assets are amortised on a straight line basis over 5-10 years.

19. LONG TERM PREPAYMENTS

The Group

The long term prepayments represent the rental prepayments of production plant and exhibition halls to Lang Fang Huari Furniture Joint Stock Co., Ltd. for 5 years from 2007.

	HK$'000
Cost:	
At 1 January 2007	–
Additions	20,299
Exchange realignment	948
At 31 December 2007 and 1 January 2008	21,247
Exchange realignment	1,329
At 31 December 2008	22,576
Amortisation:	
At 1 January 2007	–
Amortise for the year	3,400
Exchange realignment	141
At 31 December 2007 and 1 January 2008	3,541
Amortise for the year	3,715
Exchange realignment	269
At 31 December 2008	7,525
Carrying amount:	
At 31 December 2008	**15,051**
At 31 December 2007	17,706

	2008 **HK$'000**	2007 HK$'000
Analysed for reportng purposes as:		
Current assets (included in prepayments, deposits and other receivables *(Note 23)*)	**3,763**	3,541
Non-current assets	**11,288**	14,165
	15,051	17,706

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**78**	78
Amounts due from subsidiaries *(Note (i))*	**112,560**	114,384
Less: Provision for impairment loss in respect of amounts due from subsidiaries	**(3,572)**	(2,714)
	108,988	111,670

Movement in provision for impairment loss in respect of amounts due from subsidiaries is as follows:

	The Company	
	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**2,714**	971
Provision for impairment loss in respect of amounts due from subsidiaries *(Note (ii))*	**858**	2,714
Reversal of provision for impairment loss	**–**	(971)
Balance at end of the year	**3,572**	2,714

Notes:

(i) The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and repayable on demand.

(ii) In view of the accumulated losses and net liabilities position of the Company's subsidiaries for the year ended 31 December 2008, the directors of the Company considered that the carrying amounts of the amounts due from subsidiaries exceeds the recoverable amount, and thus, they concluded that it is appropriate to make provision for impairment in values in respect of the amounts due from subsidiaries.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2008 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Alwin Asia Investment Limited	British Virgin Islands, limited liability company	US$10,000	100%	100%	Investment holding, Hong Kong
Tedwood International Limited	Hong Kong, limited liability company	HK$1	100%	100%	Inactive, Hong Kong
Lang Fang Tian Feng Home Co. Ltd	The PRC, wholly owned foreign enterprise	US$1,850,000	100%	100%	Manufacture and sales of household products, the PRC
Trader Group International Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Langfang Huari Hengyu Home Co., Ltd. (formerly known as Langfang Hengyu Home Co., Ltd.)#	The PRC, wholly owned foreign enterprise	US$12,100,000	100%	100%	Manufacture and sales of household products, the PRC

The subsidiary was incorporated on 25 December 2006. Upon incorporation, the registered capital amounted to US$100,000. On 16 January 2007, the registered capital was increased to US$12,600,000. Capital injection of registered capital of US$100,000 and US$12,000,000 were injected by the Group on 7 January 2007 and 14 February 2007 respectively. The remaining amount of the registered capital of US$500,000 which is required to be injected on or before 15 January 2009 is still not yet injected by the Group up to the date of approval of these financial statements.

21. INVENTORIES

	The Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**68,214**	47,797
Work in progress	**20,351**	25,853
Finished goods	**54,966**	28,222
	143,531	101,872

22. TRADE AND BILLS RECEIVABLES

The average credit period on sales of goods is 30 to 180 days. In view of the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest bearing.

	The Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**46,625**	21,407
Bills receivables	**–**	1,253
	46,625	22,660
Less: Provision for impairment loss of trade receivables	**(7,799)**	(322)
	38,826	22,338

As at 31 December 2008, the Group's trade receivables of approximately HK$7,362,000 (2007: HK$304,000) were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

22. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	The Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**23,111**	11,931
31 – 60 days	**2,095**	6,096
61 – 90 days	**2,420**	1,320
91 – 180 days	**1,965**	967
Over 180 days	**9,235**	2,024
	38,826	22,338

Included in the Group's trade and bills receivables balance are debtors with a carrying amount of approximately HK$11,717,000 (2007: HK$10,407,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

An ageing analysis of trade and bills receivables which are past due but not impaired is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
31 – 60 days	**664**	6,096
61 – 90 days	**369**	1,320
91 – 180 days	**1,452**	967
Over 180 days	**9,232**	2,024
	11,717	10,407

22. TRADE AND BILLS RECEIVABLES *(Continued)*

Movement in provision for impairment loss of trade receivables is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**322**	179
Reversal of provision for impairment loss	**–**	(179)
Provision for impairment loss of trade receivables	**7,362**	304
Exchange realignment	**115**	18
Balance at end of the year	**7,799**	322

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the directors considered provision for impairment loss is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the allowance for doubtful debts.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**41,187**	70,495	**82**	227
Deposits and other receivables	**9,369**	5,902	**–**	–
	50,556	76,397	**82**	227
Less: Provision for impairment loss of other receivables	**(17)**	(1)	**–**	–
	50,539	76,396	**82**	227

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Movement in provision for impairment loss of other receivables is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**1**	1
Provision for impairment loss of other receivables	**16**	–
Balance at end of the year	**17**	1

24. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**54,977**	55,477	**156**	23

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$54,739,000 (2007: HK$55,448,000). 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.

Pledged bank deposits represents deposits pledged to bank to secure banking facilities granted to the Group. As at the balance sheet date, no deposits have been pledged to secure bank overdrafts and general banking facilities (2007: HK$2,799,000).

25. TRADE PAYABLES

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

	The Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**6,126**	9,140
31 – 60 days	**2,641**	3,889
61 – 90 days	**2,362**	1,434
91 – 180 days	**4,280**	4,181
Over 180 days	**4,945**	750
	20,354	19,394

26. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**12,260**	10,190	**–**	–
Value-added tax payables	**26,873**	3,756	**–**	–
Provision	**–**	670	**–**	670
Accruals	**3,398**	2,352	**951**	1,441
	42,531	16,968	**951**	2,111

27. RECEIPTS IN ADVANCE

	The Group	
	2008	2007
	HK$'000	HK$'000
Receipts in advance	**44,120**	19,399

The amounts are receipts in advance from customers and are expected to be settled or recognised as income within one year.

28. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

29. CONSIDERATION PAYABLE FOR ACQUISITION

	The Group	
	2008	2007
	HK$'000	HK$'000
The consideration payable is payable as follows:		
Within one year	**–**	31,556
Between one to two years	**–**	43,552
	–	75,108
Less: Amount due within one year shown under current liabilities	**–**	(31,556)
Amount due after one year	**–**	43,552

30. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2008, the total future minimum lease payments under finance leases and their present values are as follows:

The Group

	Minimum lease payments 2008 HK$'000	Minimum lease payments 2007 HK$'000	**Present value of minimum lease payments 2008 HK$'000**	Present value of minimum lease payments 2007 HK$'000
Amount payable:				
Within one year	**21**	21	**16**	16
In the second to fifth years, inclusive	**54**	75	**44**	61
Total minimum finance lease payments	**75**	96	**60**	77
Future finance charges	**(15)**	(19)		
Total net finance lease payables	**60**	77		
Portion classified as current liabilities	**(16)**	(16)		
Non-current liabilities	**44**	61		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The interest rate on finance lease was approximately 5% per annum and the term entered into was five years. Interest rate is fixed at the contract rate. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

31. SHARE CAPITAL

Ordinary shares

	Par value HK$	Number of shares '000	Share capital HK$'000
Authorised:			
At 1 January 2007	0.02	25,000,000	500,000
Share subdivision *(Note (i))*	0.004	100,000,000	–
Share subdivision *(Notes (iii))*	0.002	125,000,000	–
At 31 December 2007, 1 January 2008 and 31 December 2008	**0.002**	**250,000,000**	**500,000**
Issued and fully paid:			
At 1 January 2007	0.02	100,280	2,005
Share subdivision *(Note i)*	0.004	401,120	–
Placing of shares *(Note ii)*	0.004	100,000	400
Share subdivision *(Note iii)*	0.002	601,400	–
At 31 December 2007, 1 January 2008 and 31 December 2008	**0.002**	**1,202,800**	**2,405**

Notes:

(i) Pursuant to an ordinary resolution passed in the special general meeting held on 26 January 2007, each of the existing issued and unissued shares of the Company of HK$0.02 were subdivided into five subdivided shares of HK$0.004 each.

(ii) On 6 February 2007, the placing agent, on behalf of True Allied Assets Limited, a substantial shareholder of the Company placed 100,000,000 shares of HK$0.004 each at a placing price of HK$1.08 each to not less than six professional investors and on 12 February 2007, True Allied Assets Limited has subscribed for 100,000,000 new shares of the Company at a subscription price at HK$1.08 per share of the Company. The Company received net proceeds of approximately HK$104,911,000.

(iii) Pursuant to an ordinary resolution passed in the special general meeting held on 12 September 2007, each of the existing issued and unissued shares of the Company of HK$0.004 were subdivided into two subdivided shares of HK$0.002 each.

Share options

Details of the Company's share option scheme are included in Note 32 to the financial statements.

32. SHARE OPTION SCHEME

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

At the date of approval of these financial statements, there was no outstanding share options issued by the Company under the Share Option Scheme.

33. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

The Group's contributed surplus as at 31 December 2008 and 2007 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

Apart from the above, subsidiaries are also required to appropriate its annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilised for employees' common welfare in accordance with the PRC Company Law. The directors recommended that 5% of statutory net profit for the entity should be appropriated to this reserve.

33. RESERVES *(Continued)*

(a) The Group *(Continued)*

Movements in the statutory reserves are as follows:

	Statutory welfare fund HK$'000	Statutory reserve fund HK$'000	Total HK$'000
At 1 January 2007	2,462	4,926	7,388
Appropriations for the year	6,130	12,261	18,391
At 31 December 2007 and 1 January 2008	8,592	17,187	25,779
Appropriations for the year	5,234	10,468	15,702
At 31 December 2008	**13,826**	**27,655**	**41,481**

(b) The Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007		47,267	36,000	(71,958)	11,309
Premium arising from issue of new shares	*31 Note (ii)*	107,600	–	–	107,600
Shares issue expense	*31 Note (ii)*	(3,089)	–	–	(3,089)
Loss for the year		–	–	(8,338)	(8,338)
At 31 December 2007 and 1 January 2008		151,778	36,000	(80,296)	107,482
Loss for the year		–	–	(6,937)	(6,937)
At 31 December 2008		**151,778**	**36,000**	**(87,233)**	**100,545**

The Company's contributed surplus as at 31 December 2008 and 2007 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

34. ACQUISITION OF BUSINESS

For the year ended 31 December 2008:

(a) On 1 January 2008, a wholly owned subsidiary of the Group, Langfang Huari Hengyu Home Co., Limited ("Langfang Hengyu"), acquired the furniture manufacture and wholesale business from Jixiangniao Furniture Factory ("Jixiangniao Business"). The assets acquired includes (i) the trademark of "Jixiangniao吉翔鳥"; (ii) the business of manufacturing and wholesaling of sofa, tea tables, and living room furniture and the relevant operating assets of Jixiangniao Furniture Factory (including but not limited to all the contracts, agreements or undertakings in relation to the aforesaid business and assets signed with any independent third parties and all the rights and benefits derived from them) but excluding any debts and liabilities; and (iii) the inventory level as at 31 December 2007.

The total consideration is calculated based on the audited net profit of Jixiangniao Business for the year ended 31 December 2008 multiplied by a price-to-earnings ratio. The price-to-earnings ratio is determined by the amount of the audited net profit of Jixiangniao Business for the year ended 31 December 2008. Since the audited net profit of Jixiangniao Business for the year ended 31 December 2008 was less than RMB6,000,000, the total consideration would be the value of the assets acquired as aforementioned. The value of assets acquired was approximately HK$10,637,000 and was satisfied in cash. For details, please refer to the Company's circular dated 12 November 2007.

The effect of net assets acquired in the transaction are as follows:

Net assets acquired – First Completion:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Total**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	328	–	328
Inventories	5,473	–	5,473
			5,801
Goodwill			–
			5,801

34. ACQUISITION OF BUSINESS *(Continued)*

Net assets acquired – Second Completion:

	Acquiree's carrying amount before combination	Fair value adjustment	Total
	HK$'000	HK$'000	HK$'000
Trademark	–	4,836	4,836
Goodwill			–
			4,836
Total consideration satisfied by:			
Cash			10,637

Analysis of the net cash outflow in respect of the acquisition of Jixiangniao Business:

	HK$'000
Cash consideration paid	(10,637)

Notes:

(i) The carrying amount of assets before combination approximates to their fair values as at the date of acquisition.

(ii) During the year ended 31 December 2008, the Jixiangniao Business contributed approximately HK$4,392,000 to the Group's profit between the date of acquisition and year end date.

34. ACQUISITION OF BUSINESS *(Continued)*

(b) On 1 April 2008, Langfang Hengyu, acquired the furniture retail business and assets of 2 furniture retails shops in Dalian, 5 furniture retails shops in Chongqing, 2 furniture retails shops in Chengdu and 11 furniture retails shops in Shanghai (including but not limited to all the contracts, agreements or undertakings signed with any third parties and all the rights and benefits derived from them and inventory) from Mr. Xiu Xianliu.

The total consideration is calculated based on the audited net profit for the year ending 31 March 2009 multiplied by a price-to-earnings ratio. The price-to-earnings ratio is determined by the amount of the audited net profit for the year ending 31 March 2009. The directors estimated that the audited net profit for the year ending 31 March 2009 would be net loss and considered that the condition for contingent consideration would not be satisfied. Hence the total consideration would be RMB8,400,000 (approximately HK$9,429,000). For details, please refer to the Company's circular dated 7 March 2008.

The amount of goodwill arising as a result of the acquisition was approximately HK$2,528,000.

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Total**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	1,621	–	1,621
Inventories	5,280	–	5,280
			6,901
Goodwill			2,528
			9,429

Total consideration satisfied by:

Cash	9,429

Analysis of the net cash outflow in respect of the acquisition of furniture retail business :

	HK$'000
Cash consideration paid	(9,429)

34. ACQUISITION OF BUSINESS *(Continued)*

(b) *(Continued)*

Notes:

(i) The carrying amount of assets before combination approximates to their fair values as at the date of acquisition.

(ii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire furniture retail business. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(iii) During the year ended 31 December 2008, the furniture retail business contributed loss of approximately HK$7,528,000 to the Group's profit between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been approximately HK$480,700,000, and profit for the year ended 31 December 2008 would have been approximately HK$63,903,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

(c) On 1 April 2008, Langfang Hengyu, acquired the furniture retail business and assets of 9 furniture retails shops in Beijing (including but not limited to all the contracts, agreements or undertakings signed with any third parties and all the rights and benefits derived from them and inventory) from Mr. Zhou Xu En.

The total consideration is calculated based on the audited net profit for the year ending 31 March 2009 multiplied by a price-to-earnings ratio. The price-to-earnings ratio is determined by the amount of the audited net profit for the year ending 31 March 2009. The directors estimated that the audited net profit for the year ending 31 March 2009 would be net loss and considered the condition for contingent consideration would not be satisfied. Hence the total consideration would be RMB7,000,000 (approximately HK$7,857,000). For details, please refer to the Company's circular dated 23 June 2008.

The amount of goodwill arising as a result of the acquisition was approximately HK$1,201,000.

34. ACQUISITION OF BUSINESS *(Continued)*

(c) *(Continued)*

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Total**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	1,327	-	1,327
Inventories	5,329	–	5,329
			6,656
Goodwill			1,201
			7,857

Total consideration satisfied by:

Cash	7,857

Analysis of the net cash outflow in respect of the acquisition of furniture retail business:

	HK$'000
Cash consideration paid	(7,857)

Notes:

(i) The carrying amount of assets before combination approximates to their fair values as at the date of acquisition.

(ii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire furniture retail business. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(iii) During the year ended 31 December 2008, the furniture retail business contributed loss of approximately HK$7,894,000 to the Group's profit between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been approximately HK$487,634,000, and profit for the year ended 31 December 2008 would have been approximately HK$64,253,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

34. ACQUISITION OF BUSINESS *(Continued)*

For the year ended 31 December 2007:

(d) On 1 April 2007, Langfang Hengyu acquired all the furniture assets and retail business (including but not limited to all the contracts, agreements or undertakings signed with any independent third parties and all the rights and benefits derived from them, stocks, renovation in progress and furniture retail business) excluding all the liabilities in Lang Fang Huari Furniture International Exhibition Center (Hall A) in Hebei Province from Lang Fang Huari Furniture Joint Stock Co., Ltd.

The consideration was satisfied in cash. The consideration is the audited net profit of the furniture retail business for the year ended 31 March 2008 multiplied by a price-to-earnings ratio of 3 times in the event that the audited net profit of the furniture retail business for the year ended 31 March 2008 is less than RMB10,000,00, or 4 times in the event that the audited net profit of the furniture retail business for the year ended 31 March 2008 is more than or equals to RMB10,000,000 but less than or equals to RMB15,000,000, or 4.9 times in the event that the audited net profit of the furniture retail business for the year ended 31 March 2008 exceeds RMB15,000,000. In the event that the audited net profit of the furniture retail business for the year ended 31 March 2008 exceeds RMB20,000,000, the maximum amount of the consideration payable will equal to RMB20,000,000 multiplied by a price-to-earnings ratio of 4.9 times, that is RMB98,000,000. For more details, please refer to the Company's circular dated 24 April 2007.

On 1 April 2007, the Group paid HK$3,943,000 in cash. Pursuant to certain contingent consideration provision, the Group made further provision of HK$75,108,000 payable in cash as at 31 December 2007.

The effect of net assets acquired in the transaction and the goodwill arising are as follows:

Net assets acquired:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Total**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	3,048	–	3,048
Inventories	895	–	895
			3,943
Goodwill			75,108
			79,051

Consideration satisfied by:

Cash	3,943
Consideration payable for acquisition *(Note (iv))*	75,108
	79,051

34. ACQUISITION OF BUSINESS *(Continued)*

(d) *(Continued)*

Analysis of the net cash outflow in respect of the acquisition of furniture retail business:

	HK$'000
Cash consideration paid	(3,943)

Notes:

(i) The carrying amount of assets before combination approximates fair values as at the date of acquisition.

(ii) Goodwill arose in furniture retail business acquisition because the cost of the acquisition included a control premium paid to acquire the retail business. In addition, the consideration paid included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be measured reliably.

(iii) Acquisition of furniture retail business contributed HK$12,064,000 to the Group's profit between the date of acquisition and 31 December 2007.

If the acquisition of furniture retail business had been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been HK$453,854,000, and profit for the year ended 31 December 2007 would have been HK$119,941,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

(iv) At the date of acquisition, the directors considered it is not probable to estimate the audited net profit of the furniture retail business for the year ended 31 March 2008. As at 31 December 2007, the directors estimated the audited net profit of the furniture retail business for the year ended 31 March 2008 based on the audited net profits for the nine months period ended 31 December 2007 for the best estimate of the expenditure that will be required to settle the obligation. Therefore, the cost of acquisition (and therefore goodwill) was adjusted for additional consideration at 31 December 2007.

35. BANKING FACILITIES

The Group had no banking facilities and had no pledge of assets as at 31 December 2008.

The Group had aggregate banking facilities of HK$2,650,000 which approximately HK$8,000 were utilised as at 31 December 2007. The banking facilities were secured by pledged bank deposits of approximately HK$2,799,000 as at 31 December 2007.

36. CONTINGENT LIABILITIES

On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of Sun-iOMS Maintenance Limited, a former indirect wholly-owned subsidiary disposed of by the Group on 27 July 2006, guaranteeing that the income accrued to Sun-iOMS Maintenance Limited arising from sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, Sun-iOMS Maintenance Limited and the Company took legal action against the abovementioned independent third party and two executive directors resigned in 2001 ("Ex-executive Directors") in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly.

The Company reached an out of court settlement with the Ex-executive Directors (the "Settlement") on 20 July 2007. The Settlement was finalised in April 2008 which the Company paid legal cost of approximately HK$498,000. As at 31 December 2007, the Group has made a provision for legal cost of HK$670,000, a reversal of provision for legal cost of approximately HK$172,000 was made during the year ended 31 December 2008.

The Group and the Company had no contingent liabilities as at 31 December 2008.

37. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain office properties, director's quarter under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

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

	The Group	
	2008	2007
	HK$'000	HK$'000
Land and buildings		
Within one year	**1,258**	201
In the second to fifth years, inclusive	**449**	50
	1,707	251

The Company had no operating lease commitment as at 31 December 2008 (2007: Nil).

38. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclose elsewhere in the financial statements, the Group had the following material transactions with related parties during the year.

(a) Compensation of key management personnel of the Group:

	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**1,334**	1,065
MPF Contribution	**12**	15
Total compensation paid to key management personnel	**1,346**	1,080

Further details of directors' emoluments are included in Note 10 to the financial statements.

(b)

Name of related parties	**Nature of transaction**	*Note*	**2008 HK$'000**	2007 HK$'000
K. K. Lau & Co.	Legal fee	*(i)*	**24**	286

Note:

(i) The legal fee paid to K. K. Lau & Co. was charged at rates negotiated by reference to market rates. Mr. Lau Kwok Kee, who resigned as an independent non-executive director of the Company on 30 September 2004, is a partner of K. K. Lau & Co.

(c) A director, Mr. Li Ge, has executed personnel guarantee of HK$30,000 in favour of bank for corporate card granted to a wholly owned subsidiary of the Company. The personal guarantee by the director was terminated on 5 July 2007.

(d) On 6 February 2007, the placing agent, on behalf of True Allied Assets Limited, a substantial shareholder of the Company placed 100,000,000 shares of HK$0.004 each at a placing price of HK$1.08 each to not less than six professional investors and on 12 February 2007. True Allied Assets Limited has subscribed for 100,000,000 new shares of the Company at a subscription price at HK$1.08 per share of the Company.

39. SUBSEQUENT EVENT

No significant subsequent event took place subsequent to 31 December 2008.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2009.

FIVE YEAR SUMMARY

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**477,827**	447,814	160,414	22,656	–
Cost of sales	**(323,895)**	(296,060)	(110,423)	(19,987)	–
Gross profit	**153,932**	151,754	49,991	2,669	–
Other revenue	**3,496**	935	1,003	3	11
Other income	**172**	433	513	–	–
Selling and distribution costs	**(43,521)**	(17,193)	(1,041)	–	–
Administrative expenses	**(35,985)**	(16,140)	(7,513)	(4,602)	(4,075)
Impairment loss recognised in respect of goodwill	**(11,868)**	–	–	–	(2,702)
Provision for amounts due from associates	**–**	–	–	(3)	(262)
Fair value changes on financial assets at fair value through profit or loss	**–**	(288)	–	–	–
Other operating expenses	**(84)**	(416)	(105)	(571)	(1,160)
Profit/(loss) from operations	**66,142**	119,085	42,848	(2,504)	(8,188)
Finance costs	**(4)**	(3)	(724)	(3)	(3)
Gain on disposal of subsidiaries	**–**	–	1,158	–	–
Gain on deemed disposal of partial interest in an associate	**–**	–	–	–	135
Fair value loss on derivative liability	**–**	–	(1,616)	–	–
Profit/(loss) before taxation	**66,138**	119,082	41,666	(2,507)	(8,056)
Taxation	**–**	(984)	–	–	–

FIVE YEAR SUMMARY

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) for the year from continuing operations	**66,138**	118,098	41,666	(2,507)	(8,056)
Discontinued operations					
Profit/(loss) for the year from discontinued operations	**–**	–	5,852	(11,629)	(6,085)
Profit/(loss) for the year	**66,138**	118,098	47,518	(14,136)	(14,141)
Attributable to:					
Equity holders of the Company	**66,138**	118,098	47,518	(14,136)	(14,023)
Minority interests	**–**	–	–	–	(118)
	66,138	118,098	47,518	(14,136)	(14,141)

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**495,665**	432,731	99,256	5,470	12,865
Total liabilities	**(108,014)**	(130,946)	(36,086)	(11,746)	(9,485)