1. Group Reorganisation

The Company was incorporated in the Cayman Islands on 8 November 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation scheme to rationalise the structure of the Group, in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Chitaly (BVI) Limited ("Chitaly BVI"), the then holding company of the subsidiaries and became the holding company of the Group on 15 December 2001 (the "Group Reorganisation"). Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are also set out in notes 21, 22 and 23, to the financial statements and in the Company's prospectus dated 2 May 2002.

2. Corporate Information

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, the Cayman Islands.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 21 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

3. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 33:	Discontinuing operations
SSAP 34:	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

3. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs") (Continued)

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are translated at weighted average exchange rates for the year, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously the case. The SSAP has had no material impact on the financial statements.

SSAP 15 (revised) prescribes the revised format for the cash flow statement. The principal impact of the revision to this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 24 of the financial statements and the notes thereto have been revised in accordance with the new requirements. The cash flows of the Company's overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas before, they were translated at the applicable rates of exchange ruling at the balance sheet date. The SSAP has had no material impact on the financial statements.

SSAP 33 prescribes the basis and criteria for segregating information about a major operation that an enterprise is discontinuing, from information about its continuing operations, together with the disclosure requirements. The SSAP has had no material impact on the financial statements.

SSAP 34 prescribes the recognition and measurement criteria for employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 22 to the financial statements. These disclosures are similar to those required by the Rules Governing the Listing of Securities on the Stock Exchange and which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. Basis of Presentation and Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of leasehold land and buildings, as further explained below.

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The Group Reorganisation, which was completed on 15 December 2001, involved companies under common control. The consolidated financial statements for the year ended 31 December 2001 have been prepared using the merger basis of accounting as a result of the Group Reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the year ended 31 December 2001 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation/establishment, where this is a shorter period.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

4. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Impairment of assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an 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 an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line method to write off the cost or valuation of each asset over the following estimated useful lives:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

4. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Fixed assets and depreciation (Continued)

All of the Group's fixed assets were stated at cost less accumulated depreciation prior to the listing of the Company's shares on the Stock Exchange. The financial effect and any impairment losses arising from the remeasurement of certain of the Group's fixed assets on a valuation basis as a result of the listing, amounted to a surplus on revaluation in the amount of HK$26,513,000 which was recognised in the fixed asset revaluation reserve. Further details of the changes in accounting policy for the remeasurement of the Group's fixed assets are set out in note 15 to the financial statements.

Construction in progress is stated at cost less any impairment losses, which includes the cost of construction and other direct costs attributable to the construction of buildings, plant and machinery and other fixed assets. No provision for depreciation is made for construction in progress until such time as the assets are completed and put into use.

Land use rights

Rights to the use of sites are stated at cost and amortised on a straight-line basis over the terms of the land use rights or the initial terms of the entity agreement, whichever is the shorter, starting from the date on which the related construction is completed and ready for its intended use.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Inventories

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

Accounts receivable

Accounts receivables, which generally have terms of 30 to 90 days, are recognised and carried at original invoice amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

4. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Leased assets

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

Revenue recognition

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

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

– interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

– from the rendering of services, when services are rendered.

Dividends

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

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

Cash and cash equivalents

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

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

4. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year. The balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Pension scheme and costs

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

According to the relevant PRC regulations, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), commencing from 1 July 2000, is required to participate in the employee retirement benefits scheme operated by the relevant local government bureau in the PRC and to make contributions for its eligible employees. The contribution to be borne by Wanlibao is calculated at 11% on the annual average salaries in Guangzhou announced by the Guangzhou Social Labour Insurance Administration Bureau.

4. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Share option scheme

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

5. Segment Information

Segment information is required by SSAP 26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which for the Group is determined to be by business segment; and (ii) on a secondary segment reporting basis, which for the Group is determined to be by geographical segment.

Sale of home furniture is the only major business segment of the Group. Accordingly no further business segment information is provided.

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. An analysis of the Group's turnover by location of customers is as follows:

	2002	2001
Segment revenue	**HK$'000**	HK$'000
Sales to the PRC	**204,465**	160,854
Sales to elsewhere in Asia	**2,373**	3,372
Sales to Australia	**–**	158
Sales to North America	**182**	286
Sales to Europe	**–**	88
	207,020	164,758

	Segment assets		**Capital expenditure**	
	2002	2001	**2002**	2001
Other segment information	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The PRC	**125,425**	86,905	**9,257**	6,874
Hong Kong	**69,168**	11,950	**27**	57
	194,593	98,855	**9,284**	6,931

6. Turnover and Revenue

Turnover represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts, and after eliminations of all significant intra-Group transactions.

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

	2002 HK$'000	2001 HK$'000
Turnover	**207,020**	164,758
Bank interest income	**629**	169
Service income	**4,700**	–
Others	**607**	500
Other revenue	**5,936**	669
Revenue	**212,956**	165,427

7. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002 HK$'000	2001 HK$'000
Cost of goods sold	**133,847**	101,892
Bad debts written off	**563**	–
Provision for inventory obsolescence	**–**	210
Auditors' remuneration	**1,000**	350
Depreciation of owned assets	**5,286**	4,016
Loss on disposal of fixed assets	**19**	238
Research and development cost	**1,046**	195
Operating lease rentals on buildings	**134**	156
Staff costs (excluding directors' remuneration (note 8))		
Wages and salaries	**13,826**	10,929
Other benefits in kind	**455**	501
Pension contributions	**365**	188
Less: Forfeited contributions	**–**	–
Net pension contributions	**365**	188
	14,646	11,618
Exchange losses, net	**367**	–
Interest income	**(629)**	(169)
Service income	**(4,700)**	–

The Group's profit from operating activities represents sales of home furniture in the PRC.

8. Directors' Remuneration

The remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Fees:		
Executive directors	**480**	–
Independent non-executive directors	**320**	–
	800	–
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	**6,496**	9,281
Pension scheme contributions	**–**	–
Other emoluments of independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	**–**	–
	6,496	9,281
	7,296	9,281

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK$500,000	**2**	–
HK$500,001 – HK$1,000,000	**1**	1
HK$2,500,001 – HK$3,000,000	**2**	–
HK$4,000,001 – HK$4,500,000	**–**	2
	5	3

During the year, discretionary bonuses paid or receivable by the executive directors amounted to HK$392,000 (2001: Nil). No directors waived or agreed to waive any remuneration during the year (2001: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2001: Nil).

During the year, 6,900,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 16 to 18.

9. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2001: three) executive directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (2001: two) highest paid, non-director individuals, which both fell within the nil– HK$1,000,000 band, are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**544**	172
Pension scheme contributions	**13**	–
	557	172

During the year, the discretionary bonuses paid to or receivable by the five highest paid individuals amounted to HK$415,000 (2001: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2001: Nil).

During the year, 400,000 share options were granted to one of the two non-directors, highest paid employees in respect of his service to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 16 to 18. No value in respect of the share options granted during the year has been charged to the profit and loss account.

10. Finance Costs

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank loans wholly repayable within one year	**82**	102

11. Tax

	Group	
	2002	2001
	HK$'000	HK$'000
Group:		
Hong Kong	**–**	–
Macao	**3,470**	1,995
PRC	**3,268**	3,143
Tax charge for the year	**6,738**	5,138

Hong Kong profits tax has not been provided for as the Group did not generate any assessable profits in Hong Kong during the year.

Macao income tax has been calculated at the statutory tax rate of 15.75% on the estimated assessable profits for the year of Umbrella Group Limited ("Umbrella") and Coralview Limited ("Coralview") which are engaged in the trading of furniture.

According to the Income Tax Law of the PRC, Wanlibao, a wholly-owned subsidiary of the Company established in Guangzhou, the PRC, is subject to a preferential corporate income tax rate of 24%, and is exempt from PRC corporate income tax for the first two profitable years of its operations, and thereafter, is eligible for 50% relief from PRC corporate income tax for the following three years. As Wanlibao has suffered losses since its establishment on 9 July 1999, corporate income tax has not been provided for during the year.

Ridgecrest Limited ("Ridgecrest") , Knollwood Limited ("Knollwood") and Moffat Limited ("Moffat") are engaged respectively in the provision of quality control, design and customer services. Provision for tax on the estimated assessable profits of each of these subsidiaries arising from their operations in the PRC has been calculated at the rate of PRC corporate income tax during the year, which is currently 33%.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of 2002 and 2001 respectively.

12. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was approximately HK$14,230,000 (2001: net loss of HK$15,000).

13. Dividends

	Group 2002 HK$'000	Group 2001 HK$'000
Special dividend (Note)	**10,000**	18,600
Interim dividend – HK2.5 cents (2001: Nil) per ordinary share	**5,750**	–
Proposed final dividend – HK8.0 cents (2001: Nil) per ordinary share	**18,616**	–
	34,366	18,600

Note: A special dividend for the year ended 31 December 2002 was paid by a subsidiary, Chitaly Furniture Limited, to the shareholders of the Company whose names appeared on the register of members on 2 April 2002. The rates of the dividend and the number of shares ranking for this dividend are not presented as the directors consider that such information is not meaningful for the purpose of these financial statements.

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

14. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$44,514,000 (2001: HK$32,477,000) and the weighted average of 215,113,000 (2001: 189,750,000) ordinary shares.

The weighted average number of shares used to calculate the earnings per share, on both the consolidated and pro forma combined bases, for the year ended 31 December 2001 includes the pro forma issued share capital of the Company of 189,750,000 shares, comprising the 1,000,000 shares issued as consideration for acquisition of the entire issued share capital of Chitaly BVI, the 1,000,000 shares of the Company allotted and issued fully paid to the shareholders of Chitaly BVI and the capitalisation issue of 187,750,000 shares, as further detailed in note 22 to the financial statements. The weighted average number of shares used to calculate the earnings per share, on both the consolidated and pro forma combined bases, for the year ended 31 December 2002 includes the weighted average of the 25,363,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 15 May 2002 in addition to the aforementioned 189,750,000 ordinary shares.

There were no diluted earnings per share for the years ended 31 December 2002 and 2001 as the share options had no dilutive effects throughout these years.

15. Fixed Assets

Group

	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:						
At beginning of year	26,481	21,572	2,066	1,490	–	51,609
Additions	2,140	6,524	157	435	28	9,284
Surplus on revaluation (note 23)	26,513	–	–	–	–	26,513
Transfer	1,166	(1,166)	–	–	–	–
Disposals	–	(20)	–	(302)	–	(322)
At 31 December 2002	56,300	26,910	2,223	1,623	28	87,084
Accumulated depreciation:						
At beginning of year	2,223	2,882	688	497	–	6,290
Provided during the year	2,006	2,520	441	319	–	5,286
Disposals	–	(2)	–	(152)	–	(154)
At 31 December 2002	4,229	5,400	1,129	664	–	11,422
Net book value:						
At 31 December 2002	52,071	21,510	1,094	959	28	75,662
At 31 December 2001	25,424	17,524	1,378	993	–	45,319

The Group's leasehold land and buildings were valued on an open market, existing use basis at 28 February 2002 by Castores Magi Surveyors Limited ("CMSL"), an independent firm of professional valuers, at HK$51,000,000. A surplus of HK$26,513,000 arising therefrom, which represented the excess of the revalued amounts over the then carrying values of the leasehold land and buildings, on an individual asset basis, has been credited to the fixed asset revaluation reserve (note 23). The directors, based on the update from CMSL, are of the opinion that the recoverable amounts of the leasehold land and buildings do not materially differ from their carrying values as at 31 December 2002.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$24,051,000 (2001: HK$24,250,000).

16. Due from Directors

Particulars of the amounts due from directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Amounts due from directors

Group

Name	Balance at 31 December 2002 HK$'000	Maximum amount outstanding during the year HK$'000	Balance at 1 January 2001 HK$'000
Mr. Tse Kam Pang	**–**	1,840	1,840
Mr. Lam Toi	**–**	3,068	3,068
Ms. Lam Ning, Joanna	**–**	1,986	1,986
	–		6,894

The amounts due from directors were unsecured, interest-free and were fully settled on 2 April 2002.

17. Inventories

	Group 2002 HK$'000	Group 2001 HK$'000
Raw materials	**4,207**	8,010
Work-in-progress	**6,570**	4,034
Finished goods	**12,654**	11,345
	23,431	23,389

As at the balance sheet date, no inventories were stated at net realisable value (2001: Nil).

18. Accounts Receivable

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of accounts receivable is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Outstanding balance aged:		
Within 30 days	**4,308**	5,742
31 days – 90 days	**824**	147
91 days – 180 days	**32**	54
181 days – 360 days	**–**	–
Over 1 year	**–**	386
	5,164	6,329
Less: Provision for doubtful debts	**–**	(386)
Total accounts receivable, net	**5,164**	5,943

19. Interest-bearing Bank Borrowings

	Group	
	2002	2001
	HK$'000	HK$'000
Bank loan wholly repayable within one year, secured	**–**	3,738

A short term bank loan of RMB4,000,000 (equivalent to HK$3,738,000) as at 31 December 2001 which was secured by two pieces of leasehold land located in Zengcheng City, Guangzhou, the PRC, carried an annual interest rate of 6.435% and was repaid on 15 April 2002.

20. Accounts Payable

An aged analysis of accounts payable is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Outstanding balance aged:		
Within 30 days	**15,388**	9,223
31 days – 90 days	**6,244**	9,826
91 days – 180 days	**2**	548
181 days – 360 days	**–**	–
Over 1 year	**50**	–
Total accounts payable	**21,684**	19,597

21. Interests in Subsidiaries

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**45,344**	–
Due from/to subsidiaries	**29,962**	(113)
	75,306	(113)

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

21. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2002 were as follows:

Name	Place of incorporation/ registration and [place] of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chitaly (BVI) Limited ("Chitaly BVI")	British Virgin Islands ("BVI")	Ordinary US$2	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Ordinary HK$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Ordinary HK$10,000	–	100	Investment holding and trading of furniture
Umbrella Group Limited	BVI/ [Macao]	Ordinary US$1	–	100	Trading of furniture
Coralview Limited	BVI [Macao]	Ordinary US$1	–	100	Trading of furniture
Ridgecrest Limited	BVI/ [PRC]	Ordinary US$1	–	100	Provision of quality control services
Moffat Limited	BVI/ [PRC]	Ordinary US$1	–	100	Provision of customer services
Knollwood Limited	BVI/ [PRC]	Ordinary US$1	–	100	Provision of design services
Wanlibao (Guangzhou) Furniture Limited	PRC	Paid-up registered US$5,700,000	–	100	Manufacturing and trading of furniture

22. Issued Capital

Shares

	2002 HK$'000	2001 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each (2001: 2,000,000,000 ordinary shares of HK$0.10 each)	**200,000**	200,000
Issued and fully paid:		
230,000,000 ordinary shares of HK$0.10 each (2001: 2,000,000 nil paid ordinary shares of HK$0.10 each)	**23,000**	–

The following changes in the Company's authorised and issued share capital took place during the period from 8 November 2001 (date of incorporation) to 31 December 2002.

a) On incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each.

b) On 13 November 2001, 1,000,000 ordinary shares of HK$0.10 each were issued at par and nil paid.

c) On 15 December 2001, the authorised share capital of the Company was increased to HK$200,000,000 by the creation of a further 1,999,000,000 shares of HK$0.10 each.

d) Pursuant to the Group Reorganisation as set out in the Company's prospectus dated 2 May 2002, i) 1,000,000 ordinary shares of HK$0.10 each issued nil paid, as mentioned in point (b) above, were allotted and issued, credited as fully paid; and ii) 1,000,000 new ordinary shares of HK$0.10 each were allotted and issued, credited as fully paid, in consideration for the acquisition by the Company of the entire issued share capital of Chitaly BVI.

e) The directors were authorised to capitalise HK$18,775,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 187,750,000 shares for allotment and issue to shareholders on the register of members of the Company at the close of business on 26 April 2002, in proportion (as nearly as possible without involving fractions) to their then respective existing holdings.

22. Issued Capital (Continued)

f) On 15 May 2002, 40,250,000 ordinary shares of HK$0.10 each were issued at HK$1.00 each for a total cash consideration, before issue expenses, of HK$40,250,000 through an initial public offering by way of placing and public offer.

	Notes	Number of Shares	HK$'000
Authorised:			
On incorporation	(a)	1,000,000	100
Increase in authorised share capital	(c)	1,999,000,000	199,900
		2,000,000,000	200,000
Issued:			
For the acquisition of the entire issued share capital of Chitaly BVI, issue and allotment of ordinary shares of HK$0.10 each, credit as fully paid	(d)	2,000,000	200
Capitalisation issue	(e)	187,750,000	18,775
New issue on public listing	(f)	40,250,000	4,025
As at 31 December 2002		230,000,000	23,000

Share options

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group's operations. Under the Scheme, the directors may, at their discretion, invite any employees, directors or consultant of any company in the Group to take up options. The Scheme became effective on 26 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

22. Issued Capital (Continued)

Share options (Continued)

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

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

The movements in the number of share options to subscribe for shares in the Company during the year were as follows:

Name of directors	At the beginning of the year	Granted during the year	At the end of the year	Date of grant of share options	Exercise price per share (HK$)	Exercisable period	Price of Company's shares at grant date of options (HK$)
Tse Kam Pang	–	2,300,000	2,300,000	17/9/2002	HK$0.73	1/1/2003 to 31/12/2005	HK$0.72
Lam Toi	–	2,300,000	2,300,000	17/9/2002	HK$0.73	1/1/2003 to 31/12/2005	HK$0.72
Lam Ning, Joanna	–	2,300,000	2,300,000	17/9/2002	HK$0.73	1/1/2003 to 31/12/2005	HK$0.72
One member of senior management and an employee	–	400,000	400,000	17/9/2002	HK$0.73	1/1/2003 to 31/12/2005	HK$0.72
In aggregate	–	7,300,000	7,300,000				

No share options were exercised, lapsed or cancelled during the year.

At the balance sheet date, the Company had 7,300,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,300,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of approximately HK$5,329,000.

Subsequent to the balance sheet date, a total of 2,700,000 share options granted to a director and an employee, respectively, were exercised on 13 January 2003, at an exercise price of HK$0.73 per share.

23. Reserves

Group

	Share premium account (Note (a))	Exchange fluctuation reserve	Leasehold land and buildings revaluation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2001	–	–	–	31,453	31,453
Net profit for the year	–	–	–	32,477	32,477
Dividends	–	–	–	(18,600)	(18,600)
At 1 January 2002	–	–	–	45,330	45,330
Capitalisation of share premium for issue of shares (see note 22)	(18,775)	–	–	–	(18,775)
Issue of shares through initial public offer	36,225	–	–	–	36,225
Share issue expenses	(8,402)	–	–	–	(8,402)
Surplus on revaluation	–	–	26,513	–	26,513
Translation exchange differences arising on consolidation of a subsidiary	–	367	–	–	367
Net profit for the year	–	–	–	44,514	44,514
Special dividend	–	–	–	(10,000)	(10,000)
Interim dividend	–	–	–	(5,750)	(5,750)
Proposed final dividend	–	–	–	(18,616)	(18,616)
At 31 December 2002	9,048	367	26,513	55,478	91,406

23. Reserves (Continued)

Company

	Share premium account (Note (a)) HK$'000	Contributed surplus (Note (b)) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001	–	–	–	–
Net loss for the year	–	–	(15)	(15)
At 1 January 2002	–	–	(15)	(15)
Capitalisation of share premium for issue of shares (see note 22)	(18,775)	–	–	(18,775)
Issue of shares through initial public offer	36,225	–	–	36,225
Share issue expenses	(8,402)	–	–	(8,402)
Arising on acquisition of Chitaly BVI and its subsidiaries (see note 22)	–	45,144	–	45,144
Net profit for the year	–	–	14,230	14,230
Special dividend	–	–	(10,000)	(10,000)
Interim dividend	–	–	(5,750)	(5,750)
Proposed final dividend	–	–	(18,616)	(18,616)
At 31 December 2002	9,048	45,144	(20,151)	34,041

Notes:

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

(b) The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company's shares issued in exchange therefor.

24. Note to Consolidated Cash Flow Statement

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	Group	
	2002	2001
	HK$'000	HK$'000
Cash on hand and balances with banks	**87,838**	11,766

25. Commitments

(a) Capital commitments

	Group	
	2002	2001
	HK$'000	HK$'000
Capital commitments:		
Contracted, but not provided		
for in relation to		
– the construction of buildings	**839**	–

(b) Commitments under operating leases

The Group leases certain of its office buildings under operating lease arrangements. Leases for office buildings are negotiated for a term of three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**290**	179
In the second to fifth years, inclusive	**320**	–
	610	179

26. Contingent Liabilities

At 31 December 2002, the Group and the Company had no material contingent liabilities.

27. Post Balance Sheet Events

a) A total of 2,700,000 share options granted to a director and an employee, respectively, were exercised on 13 January 2003, at an exercise price of HK$0.73 per share. The exercise of such share options resulted in the issue of 2,700,000 additional shares and cash proceeds to the Company of approximately HK$1,971,000 before related expenses.

b) Pursuant to the Sale and Purchase Agreements on 26 March 2003, Crisana International Inc. and Silver Wave Holdings Limited, the controlling shareholders of the Company, each sold 4,000,000 and 1,000,000 existing shares at the share price of HK$1.05 to Value Partners Limited, a fund manager incorporated in the British Virgin Islands with limited liability, and Mr. Li Kar Keung, an independent party of the Company, respectively. The sale shares represented approximately 4.3% of the existing issued share capital of the Company.

28. Related Party Transactions

During the year ended 31 December 2002, the Group had no material transactions with related parties.

29. Comparative Amounts

As further explained in note 3 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

30. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28 April 2003.