1. Corporate Information

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, 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 16 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

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

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements. The SSAP prescribes 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 adopting this SSAP, which has had a significant effect on the financial statements are described as follows:

The SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

A deferred tax liability has been recognised on the revaluation of the Group's leasehold land and buildings. The related note disclosures are now more extensive than previously required. These disclosures are presented in note 20 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. Summary of Significant Accounting Policies

Basis of preparation
These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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.

3. Summary of Significant Accounting Policies (Continued)

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. 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.

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, other than construction in progress, 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 year 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.

3. Summary of Significant Accounting Policies (Continued)

Fixed assets and depreciation (Continued)

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 of each asset over the following estimated useful lives:

Leasehold land	Over the lease terms
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.

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.

Construction in progress represents buildings under construction and machinery under installation, which 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.

Intangible assets

Licence rights of trademarks

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

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

3. Summary of Significant Accounting Policies (Continued)

Leased assets

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 fixed assets 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 profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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.

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 and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. Summary of Significant Accounting Policies (Continued)

Revenue recognition

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

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

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

– from the rendering of services, when services are rendered; and

– other investment income, when the right to receive payment has been established.

Dividends

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

• in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except 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.

3. Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative 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 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 recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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 into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into 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.

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

3. Summary of Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, 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 "MPF") 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 MPF. The assets of the MPF 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 except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF.

According to the relevant PRC regulations, Wanlibao (Guangzhou) Furniture Limited ("Wanlibao"), which commenced from 1 July 2000, and Guangzhou Fufa Furniture Limited ("Fufa"), which commenced from 22 April 2003, are 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 contributions to be borne by Wanlibao and Fufa are calculated at 11% on the annual average salaries in Guangzhou announced by the Guangzhou Social Labour Insurance Administration Bureau.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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.

4. 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:

	2003	2002
Segment revenue	**HK$'000**	HK$'000
Sales to the PRC	**296,415**	204,465
Sales to elsewhere in Asia	**3,995**	2,373
Sales to Australia	**200**	–
Sales to North America	**109**	182
	300,719	207,020

	Segment assets		**Capital expenditure**	
	2003	2002	**2003**	2002
Other segment information	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The PRC	**178,276**	125,425	**64,837**	9,257
Hong Kong	**98,313**	69,168	**141**	27
	276,589	194,593	**64,978**	9,284

5. 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:

	2003	2002
	HK$'000	HK$'000
Turnover	**300,719**	207,020
Bank interest income	**2,114**	629
Service income	**12,600**	4,700
Gain on disposal of short term investments	**4,071**	–
Dividend income from short term investments	**770**	–
Others	**972**	607
Other revenue	**20,527**	5,936
Revenue	**321,246**	212,956

6. Profit from Operating Activities

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

	2003	2002
	HK$'000	HK$'000
Cost of goods sold	**193,110**	133,847
Provision for doubtful debts	**317**	563
Depreciation of owned assets	**5,899**	5,286
Amortisation of licence rights of trademarks	**424**	–
Loss on disposal of fixed assets	**70**	19
Research and development cost	**1,044**	1,046
Operating lease rentals on buildings	**1,590**	134
Auditors' remuneration	**1,100**	1,000
Staff costs (excluding directors' remuneration (note 7))		
Wages and salaries	**28,619**	14,281
Pension contributions	**535**	365
Less: Forfeited contributions	**–**	–
Net pension contributions	**535**	365
	29,154	14,646
Exchange (gains)/losses, net	**(402)**	367
Interest income	**(2,114)**	(629)
Service income	**(12,600)**	(4,700)
Gain on disposal of short term investments	**(4,071)**	–
Dividend income from short term investments	**(770)**	–

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

7. 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	
	2003	2002
	HK$'000	HK$'000
Fees:		
Executive directors	**720**	480
Independent non-executive directors	**480**	320
	1,200	800
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	**5,196**	6,496
Pension scheme contributions	**–**	–
Other emoluments of independent non-executive directors:		
Basic salaries, other allowances and benefits in kind	**–**	–
Pension scheme contributions	**–**	–
	5,196	6,496
	6,396	7,296

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

	Number of directors	
	2003	2002
Nil – HK$500,000	**2**	2
HK$500,001 – HK$1,000,000	**1**	1
HK$2,500,001 – HK$3,000,000	**2**	2
	5	5

During the year, discretionary bonuses paid or receivable by the executive directors amounted to HK$452,000 (2002: HK$392,000). No directors waived or agreed to waive any remuneration during the year (2002: 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 (2002: Nil).

During the year, 4,600,000 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 15 to 17. No value in respect of the share options granted during the year has been charged to profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2002: three) executive directors, the details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2002: two) highest paid, non-director individuals, which both fell within the nil - HK$1,000,000 band, are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**559**	544
Pension scheme contributions	**20**	13
	579	557

During the year, the discretionary bonuses paid to or receivable by the five highest paid individuals amounted to HK$495,000 (2002: HK$415,000). 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 (2002: Nil).

During the year, 1,900,000 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 15 to 17. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above highest paid employees' remuneration disclosures.

9. Finance Costs

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans wholly repayable within one year	**–**	82

10. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK$'000	HK$'000
Group:		
Hong Kong	**41**	–
Macao	**7,658**	3,470
PRC	**4,055**	3,268
Tax charge for the year	**11,754**	6,738

Macao income tax has been calculated at the statutory tax rate of 15.75% on the estimated assessable profits for the year of Hong Kong Wong Chiu Furniture Holding Limited ("Wong Chiu") which is engaged in the trading of furniture.

According to the Income Tax Law of the PRC, Wanlibao and Fufa, wholly-owned subsidiaries of the Company established in Guangzhou, the PRC, are subject to a preferential corporate income tax rate of 24%, and are exempt from PRC corporate income tax for the first two profitable years of its operations, and thereafter, are eligible for 50% relief from PRC corporate income tax for the following three years. As Fufa has suffered a loss since its establishment on 22 April 2003, corporate income tax has not been provided for during the year. Also, as the current year was the first statutory profitable year of Wanlibao, no corporate income tax has been provided for during the year.

King Apex International Limited ("King Apex"), Lead Concept Development Limited ("Lead Concept") and Smart Excel International Limited ("Smart Excel") 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%.

10. Tax (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Profit before tax	**88,998**	51,252
Calculated at a tax rate of 24.0% (2002: 24.0%)	**21,360**	12,300
Lower income tax rates for Hong Kong at 17.5% (2002: 16.0%)	**(93)**	144
Lower income tax rates for PRC at 10.5% (2002: 10.5%)	**(5,226)**	(4,223)
Lower income tax rates for Macao at 15.75% (2002: 15.75%)	**(3,868)**	(1,839)
Income not subject to tax	**(1,254)**	(125)
Expenses not deductible for tax	**823**	320
Impact of tax holiday of Wanlibao	**(811)**	–
Tax loss not recognised	**325**	180
Others	**498**	(19)
At effective income tax rate of 13.2% (2002: 13.1%)	**11,754**	6,738

A deferred tax liability has been recognised on the revaluation of the Group's leasehold land and buildings.

11. 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 2003 was approximately HK$29,905,000 (2002: HK$14,230,000) (note 22).

12. Dividends

	Group	
	2003	2002
	HK$'000	HK$'000
Special dividend	**–**	10,000
Interim dividend – HK6.0 cents (2002: HK2.5 cents) per ordinary share	**14,238**	5,750
Proposed final dividend – HK12.0 cents (2002: HK8.0 cents) per ordinary share	**27,908**	18,616
	42,146	34,366

13. 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$77,244,000 (2002: HK$44,514,000) and the weighted average of 234,458,000 (2002: 215,113,000) ordinary shares.

The weighted average number of ordinary shares of the Company used to calculate the basic earnings per share for the year ended 31 December 2003 included 230,000,000 ordinary shares brought forward at the beginning of that year, 7,300,000 ordinary shares issued and 4,734,000 shares repurchased and cancelled in 2003.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$77,244,000 (2002: HK$44,514,000). The weighted average number of ordinary shares used in the calculation is the 234,458,000 (2002: 215,113,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 5,858,904 (2002: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options with dilutive effect during the year.

14. Fixed Assets

Group

	Leasehold land and buildings (at valuation) HK$'000	Leasehold land and buildings (at cost) HK$'000	Plant and machinery (at cost) HK$'000	Furniture, fixtures and office equipment (at cost) HK$'000	Motor vehicles (at cost) HK$'000	Construction in progress (at cost) HK$'000	Total (at cost or valuation) HK$'000
Cost or valuation:							
At beginning of year	56,300	–	26,910	2,223	1,623	28	87,084
Additions	–	30,458	13,553	1,002	2,815	9,152	56,980
Disposals	–	–	–	(1)	(264)	–	(265)
Transfers	–	28	–	–	–	(28)	–
At 31 December 2003	56,300	30,486	40,463	3,224	4,174	9,152	143,799
Accumulated depreciation:							
At beginning of year	4,229	–	5,400	1,129	664	–	11,422
Provided during the year	1,660	93	3,132	487	527	–	5,899
Disposals	–	–	–	(1)	(114)	–	(115)
At 31 December 2003	5,889	93	8,532	1,615	1,077	–	17,206
Net book value:							
At 31 December 2003	50,411	30,393	31,931	1,609	3,097	9,152	126,593
At 31 December 2002	52,071	–	21,510	1,094	959	28	75,662

The leasehold land and buildings of the Group are located in the PRC, and have a net book value of HK$80,804,000 as at 31 December 2003. The leasehold land is held under the long term lease.

Certain of the Group's leasehold land and buildings were revalued at 31 December 2003, by Castores Magi Surveyors Limited ("CMSL"), independent professionally qualified valuers. The leasehold land and buildings were revalued at open market value, based on their existing use.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$23,812,000.

15. Intangible Assets

Group

	Licence rights of trademarks HK$'000
Cost:	
Additions and as at 31 December 2003	7,998
Accumulated amortisation:	
Amortisation provided during the year and as at 31 December 2003	424
Net book value:	
At 31 December 2003	7,574
At 31 December 2002	–

16. Interests in Subsidiaries

	Company	
	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	**45,344**	45,344
Due from subsidiaries	**22,845**	29,962
	68,189	75,306

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

16. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2003 were as follows:

Name	Place of incorporation/ registration	Place of operation	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chitaly (BVI) Limited ("Chitaly BVI")	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$2	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Investment holding and trading of furniture
Wanlibao (Guangzhou) Furniture Limited ("Wanlibao")	People's Republic of China ("PRC") (Note 1)	PRC	Paid-up registered US$5,700,000	–	100	Manufacturing and trading of furniture
Guangzhou Fufa Furniture Limited ("Fufa")*	PRC (Note 2)	PRC	Paid-up registered US$20,000,000	–	100	Manufacturing and trading of furniture
Hong Kong Wong Chiu Furniture Holding Limited ("Wong Chiu")*	BVI	Hong Kong	Ordinary US$1	–	100	Trading of furniture
King Apex International Limited ("King Apex")*	BVI	Hong Kong	Ordinary US$1	–	100	Provision of design services
Lead Concept Development Limited ("Lead Concept")*	BVI	Hong Kong	Ordinary US$1	–	100	Provision of customer services
Smart Excel International Limited ("Smart Excel")*	BVI	Hong Kong	Ordinary US$1	–	100	Provision of quality control services
Umbrella Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration	Place of operation	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Coralview Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Ridgecrest Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Moffat Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Knollwood Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

* Established during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

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

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

17. Inventories

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**8,829**	4,207
Work-in-progress	**9,901**	6,570
Finished goods	**22,019**	12,654
	40,749	23,431

As at the balance sheet date, no inventories were stated at net realisable value (2002: 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 as at the balance sheet date, based on invoiced date, and net of provisions, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 30 days	**2,960**	4,308
31 days – 90 days	**1,852**	824
91 days – 180 days	**112**	32
	4,924	5,164

19. Accounts Payable

An aged analysis of accounts payable is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Outstanding balance aged:		
Within 30 days	**19,291**	15,388
31 days – 90 days	**9,827**	6,244
91 days – 180 days	**73**	2
181 days – 360 days	**–**	–
Over 1 year	**38**	50
Total accounts payable	**29,229**	21,684

20. DEFERRED TAX

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

Deferred tax liabilities

Group	**2003** **Revaluation of leasehold land and buildings** **HK$'000**
At 1 January 2003	
As previously reported	**–**
Prior year adjustment:	
SSAP 12 - restatement of deferred tax	**6,363**
As restated	**6,363**
Gross deferred tax liabilities	
At 31 December 2003	**6,363**

Group	2002 Revaluation of leasehold land and buildings HK$'000
At 1 January 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	–
As restated	–
Deferred tax debited to equity during the year	6,363
At 31 December 2002	6,363

At 31 December 2003 there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

SSAP 12 (revised) was adopted during the year, as further explained in note 3 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2003 and 2002 by HK$6,363,000. As a consequence, the revaluation reserve for the years ended 31 December 2003 and 2002 have been decreased by HK$6,363,000, as detailed in the consolidated statement of changes in equity.

21. Issued Capital

Shares

	2003	2002
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
232,566,000 ordinary shares of HK$0.10 each (2002: 230,000,000 ordinary shares of HK$0.10 each)	**23,257**	23,000

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

(a) 7,300,000 shares of HK$0.1 each were issued for cash at a subscription price of HK$0.73 per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK$5,329,000;

(b) 4,734,000 shares of HK$0.1 each were repurchased for cash at an average subscription price of HK$2.30 per share for a total cash consideration, before expenses, of HK$10,909,700. All repurchased shares were subsequently cancelled at the nominal value of the shares amounted to HK$473,400, and the excess of the repurchase price per share over the nominal value of the shares is recorded by the Company in the share premium account amounted to HK$10,436,300.

Share options

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.

21. Issued Capital (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:

Share option scheme	Number of share options outstanding at 1 January 2003	Number of share options granted during the year	Number of share options exercised during the year	Number of share options outstanding at 31 2003	Exercise price per share HK$	Exercisable period
The Scheme	2,700,000	–	(2,700,000)	–	0.73	1/1/2003 to 31/12/2005
The Scheme	4,600,000	–	(4,600,000)	–	0.73	1/1/2003 to 31/12/2005
The Scheme	–	6,500,000	–	6,500,000	1.17	1/6/2003 to 31/5/2006
The Scheme	–	4,600,000	–	4,600,000	2.18	1/11/2003 to 31/10/2006
	7,300,000	11,100,000	(7,300,000)	11,100,000		

The 7,300,000 share options exercised during the year resulted in the issue of 7,300,000 ordinary shares of the Company and new share capital of HK$730,000 and share premium of HK$4,599,000 (before issue expenses), as detailed in note 22 to the financial statements.

At the balance sheet date, the Company had 11,100,000 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 11,100,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of approximately HK$17,633,000.

22. Reserves

Group

	Share premium account (Note (a)) HK$'000	Exchange fluctuation reserve HK$'000	Leasehold land and buildings revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	–	–	–	45,330	45,330
Capitalisation of share premium for issue of shares (see note 21)	(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
Prior year adjustment: SSAP 12 – restatement of deferred tax	–	–	(6,363)	–	(6,363)
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 1 January 2003	9,048	367	20,150	55,478	85,043
Exercise of share options	4,599	–	–	–	4,599
Repurchase of shares, including expenses	(10,629)	–	–	–	(10,629)
Translation exchange differences arising on consolidation of subsidiaries	–	(402)	–	–	(402)
Net profit for the year	–	–	–	77,244	77,244
Interim dividend	–	–	–	(14,238)	(14,238)
Proposed final dividend	–	–	–	(27,908)	(27,908)
At 31 December 2003	3,018	(35)	20,150	90,576	113,709

22. 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 2002	–	–	(15)	(15)
Capitalisation of share premium for issue of shares (see note 21)	(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 21)	–	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 1 January 2003	9,048	45,144	(20,151)	34,041
Exercise of share options	4,599	–	–	4,599
Repurchase of shares, including expenses	(10,629)	–	–	(10,629)
Net profit for the year	–	–	29,905	29,905
Interim dividend	–	–	(14,238)	(14,238)
Proposed final dividend	–	–	(27,908)	(27,908)
At 31 December 2003	3,018	45,144	(32,392)	15,770

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 on 15 December 2001 over the nominal value of the shares of the Company's shares issued in exchange therefore.

23. 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	
	2003	2002
	HK$'000	HK$'000
Cash on hand and balances with banks	**77,392**	87,838

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$28,238,000 (2002: HK$18,469,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. Commitments

(a) Capital commitments

	Group	
	2003	2002
	HK$'000	HK$'000
Capital commitments:		
Contracted, but not provided for in relation to		
– the construction of land and 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	
	2003	2002
	HK$'000	HK$'000
Within one year	**386**	290
In the second to fifth years, inclusive	**303**	320
	689	610

25. Contingent Liabilities

At 31 December 2003, the Group and the Company had no material contingent liabilities.

26. Related Party Transactions

During the year ended 31 December 2003, the Group had no material transactions with related parties.

27. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 6 April 2004.