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, 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 16 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

2. Impact of Recently Issued Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA, 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 equity investments, 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 2004. 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.

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.

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill arising on the acquisition represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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 and 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 that 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.

3. Summary of Significant Accounting Policies (continued)

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 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 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 profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	5%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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 leasehold land and building revaluation reserve.

Construction in progress is stated at cost less any impairment losses, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and other direct costs attributable to the construction of buildings, plant and machinery and other fixed assets. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

3. Summary of Significant Accounting Policies (continued)

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.

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 estimated costs to be incurred to completion and disposal.

3. Summary of Significant Accounting Policies (continued)

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.

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, 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.

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, 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.

3. Summary of Significant Accounting Policies (continued)

Income tax (continued)

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.

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 the relevant services are rendered; and
- investment income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension schemes

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

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

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

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 under the share option scheme 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 prior to their exercise date, or which lapse, are deleted from the register of outstanding options, and have no impact on the profit and loss account or balance sheet.

Borrowing costs

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the 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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3. Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

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.

4. Segment Information

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

Over 92% of the Group's sales is derived from sale of home furniture. Accordingly, no further business segment information is provided.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. An analysis of the Group's turnover by location of customers is as follows:

	2004	2003
Segment revenue	**HK$'000**	HK$'000
Sales to the PRC	**399,543**	296,415
Sales to elsewhere in Asia	**3,890**	3,995
Sales to Australia	**88**	200
Sales to South Africa	**245**	–
Sales to North America	**–**	109
	403,766	300,719

	Segment assets		**Capital expenditure**	
	2004	2003	**2004**	2003
Other segment information	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Mainland China	**339,962**	178,276	**27,904**	64,837
Hong Kong	**89,336**	98,313	**36,890**	141
	429,298	276,589	**64,794**	64,978

5. Turnover and Revenue

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

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

	2004	2003
	HK$'000	HK$'000
Turnover	**403,766**	300,719
Bank interest income	**222**	2,114
Service income	**32,783**	12,600
Gain on disposal of short term investments	**259**	4,071
Dividend income from short term investments	**251**	770
Others	**1,193**	972
Other revenue	**34,708**	20,527
Revenue	**438,474**	321,246

6. Profit from Operating Activities

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

		2004	2003
	Notes	**HK$'000**	HK$'000
Cost of goods sold		**253,055**	193,110
Provision for doubtful debts		**–**	317
Depreciation of owned assets	13	**14,570**	5,899
Amortisation of licence rights of trademarks	14	**282**	424
Loss on disposal of fixed assets		**722**	70
Research and development costs		**652**	1,044
Operating lease rentals on buildings		**3,818**	1,590
Auditors' remuneration		**1,680**	1,100
Staff costs (excluding directors' remuneration (note 7))			
Wages and salaries		**43,089**	28,619
Pension scheme contributions		**801**	535
Less: Forfeited contributions		**–**	–
Net pension scheme contributions		**801**	535
		43,890	29,154
Goodwill:			
Impairment arising during the year*		**4,657**	–
Exchange (gains)/losses, net		**115**	(402)
Interest income		**(222)**	(2,114)
Service income		**(32,783)**	(12,600)
Gain on disposal of short term investments		**(259)**	(4,071)
Dividend income from short term investments		**(251)**	(770)

* The impairment of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account (note 15).

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

7. Directors' Remuneration

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Fees	**1,380**	1,200
Other emoluments:		
Basic salaries, allowances and benefits in kind	**6,302**	5,196
	7,682	6,396

(a) Independent non-executive directors

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

	2004	2003
	HK$'000	HK$'000
Mr. Donald H. Straszheim	**60**	–
Mr. Tsao Kwang Yung, Peter	**240**	240
Mr. Ma Ming Fai, Gary	**240**	240
	540	480

There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

7. Directors' Remuneration (continued)

(b) Executive directors

	Fees	Basic salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2004					
Executive directors:					
Mr. Tse Kam Pang	**280**	**3,129**	**–**	**–**	**3,409**
Mr. Lam Toi	**280**	**2,689**	**–**	**–**	**2,969**
Ms. Lam Ning, Joanna	**280**	**484**	**–**	**–**	**764**
	840	**6,302**	**–**	**–**	**7,142**
2003					
Executive directors:					
Mr. Tse Kam Pang	240	2,419	–	–	2,659
Mr. Lam Toi	240	2,370	–	–	2,610
Ms. Lam Ning, Joanna	240	407	–	–	647
	720	5,196	–	–	5,916

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

During the year, discretionary bonuses paid or receivable by the executive directors amounted to HK$591,000 (2003: HK$452,000). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2003: Nil).

During the year, 800,000 share options were granted to a director 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 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 (2003: three) executive directors, the details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2003: two) highest paid, non-director individuals, are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**710**	559
Pension scheme contributions	**25**	20
	735	579

During the year, the discretionary bonuses paid to or receivable by the five highest paid individuals of the Group amounted to HK$662,000 (2003: HK$495,000). 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 (2003: Nil).

9. Tax

Hong Kong profits tax has not been provided at the rate of 17.5% (2003: 17.5%) as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK$'000	HK$'000
Group:		
Current – Hong Kong profits tax	**–**	41
Current – Macao profits tax	**8,518**	7,658
Current – PRC corporate income tax	**15,337**	4,055
Total tax charge for the year	**23,855**	11,754

9. 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	
	2004	2003
	HK$'000	HK$'000
Profit before tax	**131,857**	88,998
Calculated at 24.0% (2003: 24.0%)	**31,646**	21,360
Lower income tax rates for Hong Kong at 17.5% (2003: 17.5%)	**355**	(93)
Lower income tax rates for the PRC at 10.5% (2003: 10.5%)	**(3,918)**	(5,226)
Lower income tax rates for Macao at 15.75% (2003: 15.75%)	**(4,463)**	(3,868)
Income not subject to tax	**(7)**	(1,254)
Expenses not deductible for tax	**640**	823
Impact of tax holiday of		
Wanlibao (Guangzhou) Furniture Limited ("Wanlibao")	**(708)**	(811)
Tax loss not recognised	**659**	325
Others	**(349)**	498
At effective income tax rate of 18.1% (2003: 13.2%)	**23,855**	11,754

Macao profits 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.

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

According to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprise, Wanlibao, Guangzhou Fufa Furniture Limited ("Fufa") and Simply (Dongguan) Furniture Limited ("Simply"), wholly owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a preferential corporate income tax rate of 24%, and are exempt from PRC corporate income tax for the first two profitable years of its operations, and thereafter, are eligible for a 50% relief from PRC corporate income tax for the following three years. As Fufa and Simply have suffered a loss since their establishment on 22 April 2003 and on 17 May 2004, respectively, corporate income tax has not been provided for during the year. Also, as the current year was the second 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 in the provision of quality control, design and customer services respectively. 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. 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 2004 was approximately HK$53,694,000 (2003: HK$29,905,000) (note 24).

11. Dividends

	Group	
	2004	2003
	HK$'000	HK$'000
Interim dividend – HK12.0 cents (2003: HK6.0 cents) per ordinary share	**29,240**	14,238
Proposed final dividend – HK14.0 cents (2003: HK12.0 cents) per ordinary share	**34,113**	27,908
	63,353	42,146

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

12. 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$108,002,000 (2003: HK$77,244,000) and the weighted average of 239,693,000 (2003: 234,458,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$108,002,000 (2003: HK$77,244,000). The weighted average number of ordinary shares used in the calculation is the 239,693,000 (2003: 234,458,000) ordinary shares, as used in the basic earnings per share calculation; and the weighted average of 5,485,246 (2003: 5,858,904) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options with dilutive effect during the year.

13. 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	30,486	40,463	3,224	4,174	9,152	143,799
Additions	–	41,776	18,710	1,619	2,030	420	64,555
Acquisition of business (note 25(b))	–	91	21	85	41	–	238
Disposals	–	–	–	–	(997)	–	(997)
Transfers	–	–	9,152	–	–	(9,152)	–
At 31 December 2004	56,300	72,353	68,346	4,928	5,248	420	207,595
Accumulated depreciation:							
At beginning of year	5,889	93	8,532	1,615	1,077	–	17,206
Provided during the year	1,660	3,473	7,406	853	1,178	–	14,570
Disposals	–	–	–	–	(275)	–	(275)
At 31 December 2004	7,549	3,566	15,938	2,468	1,980	–	31,501
Net book value:							
At 31 December 2004	48,751	68,787	52,408	2,460	3,268	420	176,094
At 31 December 2003	50,411	30,393	31,931	1,609	3,097	9,152	126,593

The leasehold land and buildings of the Group are located in the PRC, and have a net book value of HK$117,538,000 as at 31 December 2004. The leasehold land is held under a long term lease.

Certain of the Group's leasehold land and buildings were revalued at 31 December 2004, 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$23,573,000.

14. Intangible Assets

Group

	Licence rights of trademarks HK$'000
Cost:	
At beginning of year and at 31 December 2004	7,998
Accumulated amortisation:	
At beginning of year	424
Amortisation provided during the year	282
At 31 December 2004	706
Net book value:	
At 31 December 2004	7,292
At 31 December 2003	7,574

15. Goodwill

The amount of goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of business, is as follows:

	Group HK$'000
Cost:	
Acquisition of business and at 31 December 2004 (note 25(b))	4,657
Impairment:	
Impairment provided during the year and at 31 December 2004	4,657
Net book value:	
At 31 December 2004 and at 31 December 2003	–

16. Interests in Subsidiaries

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	**45,344**	45,344
Due from subsidiaries	**36,238**	22,845
	81,582	68,189

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

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2004 were as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Chitaly (BVI) Limited ("Chitaly BVI")	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1,000	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	People's Republic of China ("PRC") (Note 1)	PRC	Paid-up registered US$5,700,000	–	100	Manufacturing and trading of furniture
Fufa	PRC (Note 2)	PRC	Paid-up registered US$20,000,000	–	100	Manufacturing and trading of furniture
Simply *	PRC (Note 3)	PRC	Paid-up registered HK$6,000,000	–	100	Manufacturing and trading of furniture
Wong Chiu	BVI	Macao	Ordinary US$1	–	100	Trading of furniture

* Established during the year

Continued/...

16. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
King Apex	BVI	Hong Kong	Ordinary US$1	–	100	Provision of design services
Lead Concept	BVI	Hong Kong	Ordinary US$1	–	100	Provision of customer services
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
Coralview Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Ridgecrest Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Moffat Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Knollwood Limited	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Sino Full *	Macao	Macao	Ordinary MOP100,000	–	100	Dormant
Tomford Limited *	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

* Established during the year.

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 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 the terms of operations of Fufa, is 20 years from 22 April 2003.

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

17. Inventories

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**24,515**	8,829
Work in progress	**12,206**	9,901
Finished goods	**45,076**	22,019
	81,797	40,749

As at the balance sheet date, no inventories were stated at net realisable value (2003: 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 the accounts receivable as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 30 days	**10,050**	2,960
31 days to 90 days	**5,411**	1,852
91 days to 180 days	**722**	112
Over 180 days	**36**	–
	16,219	4,924

19. Accounts Payable

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

	Group	
	2004	2003
	HK$'000	HK$'000
Within 30 days	**38,519**	19,291
31 days to 90 days	**30,858**	9,827
91 days to 180 days	**286**	73
181 days to 360 days	**4**	–
Over 360 days	**115**	38
	69,782	29,229

20. Interest-bearing Bank Loan

	Group	
	2004	2003
	HK$'000	HK$'000
Current portion of bank loan (note 21)	**729**	–

21. Interest-bearing Bank Loan

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loan:		
Secured	**13,000**	–
Bank loan repayable:		
Within one year	**729**	–
In the second year	**747**	–
In the third to fifth years, inclusive	**2,659**	–
Beyond five years	**8,865**	–
	13,000	–
Portion classified as current liabilities (note 20)	**(729)**	–
Long term portion	**12,271**	–

The Group's bank loan is secured by mortgages over the Group's office building situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK$35,358,000.

22. DEFERRED TAX

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

Deferred tax liabilities

Group	**2004 Revaluation of leasehold land and buildings HK$'000**
Gross deferred tax liabilities at 1 January 2004 and at 31 December 2004	**6,363**

	2003 Revaluation of leasehold land and buildings HK$'000
Gross deferred tax liabilities at 1 January 2003 and at 31 December 2003	6,363

The Group has no tax losses arising in Hong Kong (2003: Nil) but has tax losses in Mainland China of HK$659,000 (2003: HK$325,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: 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.

23. Share Capital

Shares

	2004 HK$'000	2003 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
243,666,000 ordinary shares of HK$0.10 each (2003: 232,566,000 ordinary shares of HK$0.10 each)	**24,367**	23,257

23. Share Capital (continued)

Shares (continued)

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

4,600,000 and 6,500,000 shares of HK$0.10 each were issued for cash at a subscription price of HK$2.18 and HK$1.17 per share respectively pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK$17,633,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	HK$'000	HK$'000
At 1 January 2003	230,000,000	23,000	9,048	32,048
Repurchase of shares	(4,734,000)	(473)	(10,629)	(11,102)
Share options exercised	7,300,000	730	4,599	5,329
At 1 January 2004	232,566,000	23,257	3,018	26,275
Share options exercised	11,100,000	1,110	16,523	17,633
At 31 December 2004	243,666,000	24,367	19,541	43,908

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 consultants 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.

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.

23. Share Capital (continued)

Share options (continued)

An option may be exercised in accordance with the terms of the Scheme at any time during the option period and not more than 10 years after the date of grant. The option period will be determined by the board of directors and communicated to each grantee. The board of directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the board of directors retains discretion to accelerate the vesting of 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 2004	Number of share options granted during the year	Number of share options exercised during the year	Number of share options outstanding at 31 December 2004	Exercise price per share HK$	Exercise period
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
The Scheme	–	900,000	–	900,000	4.80	29/9/2004 to 28/9/2014
The Scheme	–	6,000,000	–	6,000,000	4.675	16/10/2004 to 15/10/2014
	11,100,000	6,900,000	(11,100,000)	6,900,000		

The 11,100,000 share options exercised during the year resulted in the issue of 11,100,000 ordinary shares of the Company and new share capital of HK$1,110,000 and share premium of HK$16,523,000 (before issue expenses), as detailed in note 24 to the financial statements.

At the balance sheet date, the Company had 6,900,000 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 6,900,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of approximately HK$32,370,000.

Subsequent to the balance sheet date, on 28 January 2005, a total of 2,300,000 share options were granted to a director of the Company in respect of his service to the Group in the forthcoming year. These share options have an exercise price of HK$5.85 per share and an exercise period from 29 January 2005 to 28 January 2015. The price of the Company's shares at the date of grant was HK$5.85 per share.

Subsequent to the balance sheet date, on 24 February 2005, a total of 2,300,000 share options were granted to certain of the senior management and other employees of the Company in respect of their services to the Group in the forthcoming year. These share options have an exercise price of HK$5.76 per share and an exercise period from 25 February 2005 to 24 February 2015. The price of the Company's shares at the date of grant was HK$5.70 per share.

24. Reserves

Group

	Share premium account (Note (a))	Exchange fluctuation reserve	Leasehold land and building revaluation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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)
Exchange differences on translation of the financial statements of foreign entities	–	(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 1 January 2004	3,018	(35)	20,150	90,576	113,709
Exercise of share options	16,523	–	–	–	16,523
Exchange differences on translation of the financial statements of foreign entities	–	115	–	–	115
Net profit for the year	–	–	–	108,002	108,002
Interim dividend	–	–	–	(29,240)	(29,240)
Proposed final dividend	–	–	–	(34,113)	(34,113)
At 31 December 2004	19,541	80	20,150	135,225	174,996

24. Reserves (continued)

Company

	Share premium account (Note (a))	Contributed surplus (Note (a) & (b))	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2003	9,048	45,144	(20,151)	34,041
Exercise of share options	4,599	–	–	4,599
Repurchase of shares, including expense	(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 1 January 2004	3,018	45,144	(32,392)	15,770
Exercise of share options	16,523	–	–	16,523
Net profit for the year	–	–	53,694	53,694
Interim dividend	–	–	(29,240)	(29,240)
Proposed final dividend	–	–	(34,113)	(34,113)
At 31 December 2004	19,541	45,144	(42,051)	22,634

Notes:

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

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

25. Notes to Consolidated Cash Flow Statement

(a) Cash and cash equivalents

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

	Group	
	2004	2003
	HK$'000	HK$'000
Cash on hand and balances with banks	**85,758**	77,392

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$38,992,000 (2003: HK$28,238,000). 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.

(b) Acquisition of business

During the year, the Group acquired the following assets and liabilities from an independent third party who was engaged in the manufacturing and sale of furniture products in the Mainland China:

		2004	2003
	Notes	**HK$'000**	HK$'000
Net liabilities acquired:			
Fixed assets	13	**238**	–
Cash and bank balances		**302**	–
Prepayments and other receivables		**17,024**	–
Accounts payable		**(12,070)**	–
Accruals and other payables		**(10,151)**	–
		(4,657)	
Goodwill on acquisition	15	**4,657**	–
		–	–
Satisfied by:			
Cash		**5,197**	–

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

	2004	2003
	HK$'000	HK$'000
Cash consideration	**(5,197)**	–
Cash and bank balances acquired	**302**	–
Net outflow of cash and cash equivalents in respect of the acquisition of business	**4,895**	–

26. Commitments

(a) Capital commitments

	Group	
	2004	2003
	HK$'000	HK$'000
Capital commitments:		
Contracted, but not provided for in relation to		
– the construction of land and buildings	**358**	–
– the acquisition of outlets of franchisees	**6,354**	–
	6,712	–

(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:

	2004	2003
	HK$'000	HK$'000
Within one year	**3,924**	386
In the second to fifth years, inclusive	**14,875**	303
After five years	**7,738**	–
	26,537	689

27. Contingent Liabilities

At 31 December 2004, the Group and the Company had no material contingent liabilities (2003: Nil).

28. Post Balance Sheet Events

(a) On 28 January 2005, 2,300,000 share options were granted to certain of the directors of the Group, as further detailed in note 23 to the financial statements.

(b) On 24 February 2005, 2,300,000 share options were granted to certain of the senior management and other employees of the Group, as further detailed in note 23 to the financial statements.

29. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 8 April 2005.