NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 32, 33, 36, 37, 38, 39, HKFRS 3 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

NOTES TO FINANCIAL STATEMENTS

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised HKFRSs that are not mandatory for these financial statements. The Group has not early applied these HKFRSs in their financial statements. The following new and revised HKFRSs, although not early adopted by the Group, will have impact on the Group's financial statements in the period of initial application:

HKAS 1 Amendment	Capital Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting
At 1 January 2005	**HKAS 17#**
	Prepaid land
Effect of new policy	**Lease payments**
(Increase/(decrease))	**HK$'000**
Assets	
Prepaid land lease payments	627
Prepayments, deposits and other receivables	(627)
	–

	Effect of adopting		
At 31 December 2005	**HKAS 17#**	**HKFRS 2#**	
	Prepaid land	**Equity-settled**	
Effect of new policies	**lease**	**share option**	
(Increase/(decrease))	**payments**	**arrangements**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Assets			
Prepaid land lease payments	13,672	–	13,672
Prepayments, deposits and other receivables	(13,672)	–	(13,672)
Liabilities/equity			
Share option reserve	–	4,340	4,340
Retained profits	–	(4,340)	(4,340)
	–	–	–

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policy	Effect of adopting HKFRS 2 Employee share option scheme HK$'000
Year ended 31 December 2005	
Increase in administrative expenses	(4,340)
Decrease in profit	(4,340)
Decrease in basic earnings per share	1.72 cents
Decrease in diluted earnings per share	1.71 cents

The change in accounting policies has had no impact to the consolidated income statement for the year ended 31 December 2004.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, is included as part of the Group's interests in associates.

Goodwill

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

An impairment loss recognized for goodwill is not reversed in a subsequent period.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Impairment of assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

Leasehold land and buildings	5%
Leasehold improvement	33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

Licence rights of trademarks

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

Research and development costs

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

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

Leases

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

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

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

NOTES TO FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Applicable to the year ended 31 December 2004:

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 income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (applicable to the year ended 31 December 2005)

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

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

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (applicable to the year ended 31 December 2005) (continued)

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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

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

Inventories

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

Cash and cash equivalents

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

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents (continued)

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

Provisions

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

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

NOTES TO FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Revenue recognition

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

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

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

- from the rendering of services, when the relevant services are rendered; and

- dividend income, when the shareholders' right to receive payment has been established.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Pension schemes

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

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

Share-based payment transaction

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

NOTES TO FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transaction (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Borrowing costs

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

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

Dividends

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

The functional currencies of certain overseas subsidiaries and the associate are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$21,454,000 (2004: Nil). More details are given in note 17.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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 90% of the Group's revenue and assets are related to the sales 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. The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

	2005	2004
	HK$'000	HK$'000
Segment revenue		
Sales to the People's Republic of China ("PRC")	**400,671**	399,543
Sales to elsewhere in Asia	**10,520**	3,890
Sales to Australia	**418**	88
Sales to South Africa	**–**	245
Sales to Europe	**1,648**	–
	413,257	403,766

	Segment assets		**Capital expenditure**	
	2005	2004	**2005**	2004
Other segment information	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Mainland China	**443,135**	339,962	**33,459**	27,904
Hong Kong	**99,355**	89,336	**1,879**	36,890
Macao	**2,326**	–	**20**	–
	544,816	429,298	**35,358**	64,794

NOTES TO FINANCIAL STATEMENTS

31 December 2005

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2005	2004
	HK$'000	HK$'000
Revenue	**413,257**	403,766
Other income and gains		
Bank interest income	**1,187**	222
Service income	**41,229**	32,783
Gain on disposal of equity investments at fair value through profit or loss/short term investments	**1,243**	259
Dividend income from equity investments at fair value through profit or loss/short term investments	**–**	251
Others	**7,023**	1,193
	50,682	34,708
	463,939	438,474

NOTES TO FINANCIAL STATEMENTS

31 December 2005

6. PROFIT BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000
Cost of goods sold		**274,282**	253,055
Depreciation	14	**18,104**	14,570
Amortisation of licence rights of trademarks *	16	**758**	282
Loss on disposal of items of property, plant and equipment		**27**	722
Research and development costs		**1,903**	652
Operating lease rentals on buildings		**15,676**	3,818
Auditors' remuneration		**2,380**	1,680
Employee benefit expense (excluding directors' remuneration (note 8))			
Wages and salaries		**57,164**	43,089
Equity-settled share option expense		**4,340**	–
Pension scheme contributions		**913**	801
		62,417	43,890
Goodwill:	17		
Impairment arising during the year *		**–**	4,657
Foreign exchange losses, net		**239**	115
Interest income		**(1,187)**	(222)
Service income		**(41,229)**	(32,783)
Gain on disposal of equity investments at fair value through profit or loss/short term investments		**(1,243)**	(259)
Dividend income from equity investments at fair value through profit or loss/short term investments		**–**	(251)

*: The amortisation of licence rights of trademarks, and impairment of goodwill for the year are included in "Administrative expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on a bank loan	**453**	–

8. 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	
	2005	2004
	HK$'000	HK$'000
Fees	**1,651**	1,380
Other emoluments:		
Salaries, allowances and benefits in kind	**8,378**	6,302
Discretionary bonuses	**646**	591
Employee share option benefits	**2,492**	–
	13,167	8,273

(a) Independent non-executive directors

	2005		2004
	Fees	**Employee share option benefits**	Fees
	HK$'000	**HK$'000**	HK$'000
Dr. Donald H. Straszheim	**312**	**–**	60
Mr. Tsao Kwang Yung, Peter	**120**	**202**	240
Mr. Ma Ming Fai, Gary	**20**	**–**	240
Mr. Yau Chung Hong	**114**	**202**	–
Mr. Chang Chu Fai Johnson Francis	**60**	**156**	–
	626	**560**	540

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2005

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2005						
Executive directors:						
Mr. Tse Kam Pang	**300**	**3,250**	**250**	**–**	**–**	**3,800**
Mr. Lam Toi	**300**	**2,808**	**216**	**–**	**–**	**3,324**
Ms. Lam Ning, Joanna	**150**	**300**	**–**	**–**	**–**	**450**
Mr. Ma Ming Fai, Gary	**275**	**2,020**	**180**	**1,932**	**–**	**4,407**
	1,025	**8,378**	**646**	**1,932**	**–**	**11,981**
2004						
Executive directors:						
Mr. Tse Kam Pang	280	3,129	275	–	–	3,684
Mr. Lam Toi	280	2,689	241	–	–	3,210
Ms. Lam Ning, Joanna	280	484	75	–	–	839
	840	6,302	591	–	–	7,733

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

During the year, 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 (2004: Nil).

During the year, 2,900,000 share options were granted to directors in respect of their service to the Group, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and was included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, the details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**1,079**	710
Discretionary bonuses	**654**	662
Pension scheme contributions	**26**	25
	1,759	1,397

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**2**	2

During the year, 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 (2004: Nil).

10. TAX

Hong Kong profits tax has not been provided at the rate of 17.5% (2004: 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	
	2005	2004
	HK$'000	HK$'000
Group:		
Current – Macao profits tax	**5,754**	8,518
Current – PRC corporate income tax	**11,207**	15,337
Overprovision of PRC corporate income tax in prior years	**(14,707)**	–
Total tax charge for the year	**2,254**	23,855

NOTES TO FINANCIAL STATEMENTS

31 December 2005

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 the majority of 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	
	2005	2004
	HK$'000	HK$'000
Profit before tax	**80,446**	131,857
Calculated at 24.0% (2004: 24.0%)	**19,307**	31,646
Lower income tax rates for Hong Kong at 17.5% (2004: 17.5%)	**891**	355
Lower income tax rates for the PRC at 10.5% (2004: 10.5%)	**(3,925)**	(3,918)
Lower income tax rates for Macao at 15.75% (2004: 15.75%)	**(2,183)**	(4,463)
Income not subject to tax	**(1,442)**	(7)
Expenses not deductible for tax	**2,479**	640
Impact of tax holiday of		
Wanlibao (Guangzhou) Furniture Limited ("Wanlibao")	**(535)**	(708)
Guangzhou Fufa Furniture Limited ("Fufa")	**(233)**	–
Adjustment in respect of current tax of previous periods	**(14,707)**	–
Tax loss utilised from previous periods	**(659)**	–
Tax loss not recognised	**–**	659
Others	**3,261**	(349)
At the effective income tax rate of 2.8% (2004: 18.1%)	**2,254**	23,855

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.

According to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprise, Wanlibao, Fufa, Guangzhou Yufa Furniture Company Limited ("Yufa") and Guangzhou Fuli Furniture Company Limited ("Fuli") and Simply (Dongguan) Furniture Limited ("Simply"), wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a preferential corporate income tax rate of 24%, and are also exempt from PRC corporate income tax for the first two profitable years of its operations, and thereafter, are eligible to a 50% relief from PRC corporate income tax for the following three years.

The current year income tax rate of Wanlibao is 15% as it is in its third profit-making year. No corporate income tax of Yufa, Fuli and Fufa has been provided for during the year as Yufa and Fuli are in the pre-operating period since their establishment on 14 September 2005 and 12 December 2005, respectively, and Fufa is in its first profitable year. Besides, Simply has not obtained the written approval for the tax holiday mentioned above from the local tax authorities, a 24% of corporate income tax is applicable to Simply in the current year.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

10. TAX (CONTINUED)

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 Mainland China has been calculated at the rate of PRC corporate income tax during the year, which is currently 33%.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS

The net profit from ordinary activities attributable to equity holders dealt with in the financial statements of the Company for the year ended 31 December 2005 was approximately HK$51,443,000 (2004: HK$53,694,000) (note 28).

12. DIVIDENDS

	Group	
	2005	2004
	HK$'000	HK$'000
Interim dividend – HK9.5 cents (2004: HK12.0 cents) per ordinary share	**25,612**	29,240
Proposed final dividend – HK5.5 cents (2004: HK14.0 cents) per ordinary share	**14,306**	34,113
	39,918	63,353

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	HK$'000	HK$'000
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	**78,192**	108,002

NOTES TO FINANCIAL STATEMENTS

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

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**252,549,000**	239,693,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**601,000**	5,485,000
	253,150,000	245,178,000

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	**Leasehold improvement** HK$'000	**Plant and machinery** HK$'000	**Furniture, fixtures and office equipment** HK$'000	**Motor vehicles** HK$'000	**Construction in progress** HK$'000	**Total** HK$'000
31 December 2005							
At 31 December 2004 and at 1 January 2005							
Cost or valuation	128,653	–	68,346	4,928	5,248	420	207,595
Accumulated depreciation	(11,115)	–	(15,938)	(2,468)	(1,980)	–	(31,501)
Net carrying amount	117,538	–	52,408	2,460	3,268	420	176,094
At 1 January 2005, net of accumulated depreciation	117,538	–	52,408	2,460	3,268	420	176,094
Additions	3,043	6,614	5,491	3,646	2,648	13,916	35,358
Acquisition of business (note 29)	–	1,847	–	164	151	–	2,162
Disposals	–	–	–	(4)	(57)	–	(61)
Depreciation provided during the year	(7,249)	(874)	(7,320)	(1,317)	(1,344)	–	(18,104)
Transfers	265	–	–	–	–	(265)	–
Exchange realignment	1,274	–	1,211	49	46	9	2,589
At 31 December 2005, net of accumulated depreciation	114,871	7,587	51,790	4,998	4,712	14,080	198,038
At 31 December 2005:							
Cost or valuation	133,434	8,461	75,401	8,825	8,069	14,080	248,270
Accumulated depreciation	(18,563)	(874)	(23,611)	(3,827)	(3,357)	–	(50,232)
Net carrying amount	114,871	7,587	51,790	4,998	4,712	14,080	198,038
Analysis of cost or valuation:							
At cost	77,134	8,461	75,401	8,825	8,069	14,080	191,970
At 31 December 2005 valuation	56,300	–	–	–	–	–	56,300
	133,434	8,461	75,401	8,825	8,069	14,080	248,270

NOTES TO FINANCIAL STATEMENTS

31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004						
At 1 January 2004:						
Cost or valuation	86,786	40,463	3,224	4,174	9,152	143,799
Accumulated depreciation	(5,982)	(8,532)	(1,615)	(1,077)	–	(17,206)
Net carrying amount	80,804	31,931	1,609	3,097	9,152	126,593
At 1 January 2004, net of accumulated depreciation	80,804	31,931	1,609	3,097	9,152	126,593
Additions	41,647	18,659	1,616	2,025	405	64,352
Acquisition of business (note 29)	91	21	85	41	–	238
Disposals	–	–	–	(722)	–	(722)
Depreciation provided during the year	(5,133)	(7,406)	(853)	(1,178)	–	(14,570)
Transfers	–	9,152	–	–	(9,152)	–
Exchange realignment	129	51	3	5	15	203
At 31 December 2004, net of accumulated depreciation	117,538	52,408	2,460	3,268	420	176,094
At 31 December 2004:						
Cost or valuation	128,653	68,346	4,928	5,248	420	207,595
Accumulated depreciation	(11,115)	(15,938)	(2,468)	(1,980)	–	(31,501)
Net carrying amount	117,538	52,408	2,460	3,268	420	176,094
Analysis of cost or valuation:						
At cost	72,353	68,346	4,928	5,248	420	151,295
At 31 December 2004 valuation	56,300	–	–	–	–	56,300
	128,653	68,346	4,928	5,248	420	207,595

The leasehold land and buildings of the Group are located in Mainland China, and have a net book value of HK$114,871,000 as at 31 December 2005. The leasehold land is held under a long term lease.

Certain of the Group's leasehold land and buildings were revalued at 31 December 2005, 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$23,334,000. In the opinion of the directors, there is no material difference between the cost for those properties stated at cost and their valuation.

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group and Company	
	2005	2004
	HK$'000	HK$'000
		(restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a))	**638**	–
As restated	**638**	–
Additions during the year	**13,219**	672
Recognised during the year	**(12)**	(34)
Exchange realignment	**15**	–
Carrying amount at 31 December	**13,860**	638
Current portion included in prepayments, deposits and other receivables	**(188)**	(11)
Non-current portion	**13,672**	627

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

16. OTHER INTANGIBLE ASSETS

Group

	Licence rights of trademarks HK$'000
31 December 2005:	
Cost at 1 January 2005, net of accumulated amortisation	**7,292**
Amortisation provided during the year	**(758)**
Exchange realignment	**144**
At 31 December 2005	**6,678**
At 31 December 2005:	
Cost	**7,998**
Accumulated amortisation	**(1,320)**
Net carrying amount	**6,678**

NOTES TO FINANCIAL STATEMENTS

31 December 2005

16. OTHER INTANGIBLE ASSETS (CONTINUED)

Group

	Licence rights of trademarks HK$'000
31 December 2004:	
At 1 January 2004:	
Cost	7,998
Accumulated amortisation	(424)
Net carrying amount	7,574
Cost at 1 January 2004, net off accumulated amortisation	7,574
Amortisation provided during the year	(282)
At 31 December 2004	7,292
At 31 December 2004 and at 1 January 2005:	
Cost	7,998
Accumulated amortisation	(706)
Net carrying amount	7,292

17. GOODWILL

31 December 2005	**Group HK$'000**
At 1 January 2005:	
Cost	**4,657**
Accumulated impairment	**(4,657)**
Net carrying amount	**–**
Cost at 1 January 2005, net of accumulated impairment	**–**
Acquisition of business (note 29)	**21,454**
At 31 December 2005	**21,454**
At 31 December 2005:	
Cost and net carrying amount	**21,454**

NOTES TO FINANCIAL STATEMENTS

31 December 2005

17. GOODWILL (CONTINUED)

31 December 2004	Group HK$'000
Cost at 1 January 2004, net of accumulated impairment	–
Acquisition of business (note 29)	4,657
Impairment during the year	(4,657)
At 31 December 2004	–
At 31 December 2004	
Cost	4,657
Accumulated impairment	(4,657)
Net carrying amount	–

Impairment testing of goodwill

Goodwill relates to the acquisition of business.

Goodwill has been tested for impairment at Group level as the Group revenue is primarily derived from one segment, i.e. the sale of home furniture.

The recoverable amounts of the goodwill has been determined based on value in use calculation using cash flow projections according to financial budgets approved by management covering a five years period. The discount rate applied to the cash flow projections was determined after considering lending rates offered to enterprises by large financial institutions in Mainland China. The annual growth rate used is in line with the average growth rate of the industry.

Key assumptions were used in the value in use calculation of the above cash-generating units for 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, adjusted for expected efficiency improvements and raw materials price inflation.

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

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**45,344**	45,344
Due from subsidiaries	**118,073**	36,238
	163,417	81,582

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair value.

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2005 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	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	Mailand China (Note 1)	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacturing and trading of furniture
Fufa	Mailand China (Note 2)	Mainland China	Paid-up registered US$20,000,000	–	100	Manufacturing and trading of furniture
Simply	Mailand China (Note 3)	Mainland China	Paid-up registered HK$18,000,000	–	100	Manufacturing and trading of furniture
Yufa *	Mailand China (Note 4)	Mainland China	Paid-up registered HK$10,000,000	–	100	Manufacturing and trading of furniture
Wong Chiu	BVI	Macao	Ordinary US$1	–	100	Trading of furniture
King Apex	BVI	Hong Kong	Ordinary US$1	–	100	Provision of design services

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2005 were as follows (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
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
Fuli *	Mainland China (Note 5)	Mainland China	Registered capital HK$25,000,000	–	100	Dormant
Censter International Limited *	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Chitaly Furniture Global Limited *	BVI	Hong Kong	Ordinary US$1	–	100	Dormant

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18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries directly or indirectly held by the Company as at 31 December 2005 were as follow (continued):

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Spring Valley Properties Limited *	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Competent Holdings Limited *	BVI	Hong Kong	Ordinary US$1	–	100	Dormant
Realink Investment Group Limited *	BVI	Hong Kong	Ordinary US$1	–	100	Investment activities

* 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 term 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 term 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 term of operations of Simply, is 12 years from 17 May 2004.

4. Yufa is a wholly-foreign owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association, and the term of operations of Yufa, is 20 years from 14 September 2005.

5. Fuli is a wholly-foreign owned enterprise established pursuant to its articles of association dated 10 May 2005. The tenure of the articles of association, and the term of operations of Fuli, is 20 years from 10 December 2005.

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19. INTEREST IN AN ASSOCIATE

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**313**	–
Goodwill on acquisition	**6,682**	–
	6,995	–
Loans to an associate	**972**	–
	7,967	–

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

The Group's trade receivables with an associate are disclosed in note 21 to the financial statements.

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Gold Power International Co., Ltd. ("Gold Power")	Ordinary shares US$1 each	BVI	40	Investment activities and retailing of furniture

The above associate is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

	2005 HK$'000
Assets	**2,756**
Liabilities	**1,974**
Revenue	**12,962**
Profit	**517**

NOTES TO FINANCIAL STATEMENTS

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20. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**23,024**	24,515
Work in progress	**12,213**	12,206
Finished goods	**64,020**	45,076
	99,257	81,797

21. TRADE RECEIVABLES

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

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 days	**10,604**	10,050
31 days to 90 days	**4,473**	5,411
91 days to 180 days	**2,959**	722
Over 180 days	**1,139**	36
	19,175	16,219

Included in the Group's trade receivables are amounts due from the Group's associate of HK$2,073,000 which are repayable on similar credit terms to those offered to the major customers of the Group.

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22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**119,313**	85,758	**456**	105

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$58,986,000 (2004: HK$38,992,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. TRADE PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 days	**36,582**	38,519
31 days to 90 days	**22,192**	30,858
91 days to 180 days	**2,662**	286
181 days to 360 days	**204**	4
Over 360 days	**122**	115
	61,762	69,782

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24. INTEREST-BEARING BANK LOAN

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Bank loan-secured	Hong Kong dollars prime rate minus 2.6	2006	**607**	729

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Non-current				
Bank loan-secured	Hong Kong dollars prime rate minus 2.6	2007-2019	**11,731**	12,271

	Group 2005 HK$'000	Group 2004 HK$'000
Analysed into:		
Bank loan:		
Within one year	**607**	729
In the second year	**902**	747
In the third to fifth years, inclusive	**2,706**	2,659
Beyond five years	**8,123**	8,865
	12,338	13,000

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$33,583,000 (2004: HK$35,358,000).

The carrying amount of the Group's current borrowing approximates to its fair value. The carrying amount and fair value of the Group's non-current borrowing are as follows:

	Carrying amount 2005 HK$'000	Carrying amount 2004 HK$'000	Fair value 2005 HK$'000	Fair value 2004 HK$'000
Bank loan-secured	**11,731**	12,271	**11,731**	12,271

The fair value of the bank loan has been calculated by discounting the expected future cash flows at prevailing interest rates.

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25. DEFERRED TAX

The balance of deferred tax liabilities during the year was as follows:

Deferred tax liabilities

Group

	2005 Revaluation of leasehold land and buildings HK$'000
Gross deferred tax liabilities at 1 January 2005 and at 31 December 2005	**6,363**

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

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate 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.

26. SHARE CAPITAL

Shares

	2005 HK$'000	2004 HK$'000
Authorised:		
2,000,000,000 (2004: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
260,114,000 (2004: 243,666,000) ordinary shares of HK$0.10 each	**26,011**	24,367

NOTES TO FINANCIAL STATEMENTS

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26. SHARE CAPITAL (CONTINUED)

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

(a) 20,000,000 shares of HK$0.10 each were issued for cash at a subscription price of HK$5.00 per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses, of HK$100,000,000.

(b) The subscription rights attaching to 2,400,000 share options were exercised at the subscription price of HK$4.675 per share, resulting in the issue of 2,400,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$11,220,000.

(c) 5,952,000 shares of HK$0.10 each were repurchased for cash at the subscription price ranging from HK$3.00 to HK$4.52 per share for a total cash consideration, before expenses, of HK$24,217,770. All repurchased shares were subsequently cancelled at the nominal value of the shares amounted to HK$595,200, 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 amounting to HK$23,622,570.

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 2004	232,566,000	23,257	3,018	26,275
Share options exercised	11,100,000	1,110	16,523	17,633
At 1 January 2005	243,666,000	24,367	19,541	43,908
Issue of shares (a)	20,000,000	2,000	98,000	100,000
Repurchase of shares (c)	(5,952,000)	(596)	(23,623)	(24,219)
Share options exercised (b)	2,400,000	240	10,980	11,220
	16,448,000	1,644	85,357	87,001
Share issue expenses	–	–	(2,552)	(2,552)
At 31 December 2005	260,114,000	26,011	102,346	128,357

Details of the Company's share option scheme are included in note 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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27. SHARE OPTION SCHEME

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

The maximum number of shares in respect of which options may be granted to directors, consultants and/or employees of any company in the Group under the Scheme and under any other share option scheme of the Company, shall initially not exceed 10% of the relevant class of securities of the Company in issue at any time excluding, for this purpose, shares issued on exercise of options under the Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under this scheme when aggregated with securities to be issued under any other share option scheme of the Group, may be increased by the board of directors, provided that the shares to be issued upon exercise of all outstanding options do not exceed 30% of the relevant class of securities in issue 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 the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company 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 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 its discretion to accelerate the vesting of fixed-term options in the event that certain performance targets are met.

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

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

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27. SHARE OPTION SCHEME (CONTINUED)

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

	Number of share options								Price of the Company's shares ***			
Name or category of participant	At the beginning of the year	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	At the end of the year	Date of grant of share options*	Exercise period	Exercise price per share** HK$	At grant date of options HK$	Immediately before the exercises date HK$	At exercise date of options HK$
Directors												
Donald H. Straszheim	800,000	–	–	–	–	800,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	–	–
Ma Ming Fai, Gary	–	2,300,000	–	–	(2,300,000)	–	28/1/2005	29/1/2005 to 28/1/2015	5.85	5.85	–	–
Yau Chung Hong	–	200,000	–	–	–	200,000	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45	–	–
Tsao Kwang Yung, Peter	–	200,000	–	(200,000)	–	–	8/4/2005	9/4/2005 to 8/4/2015	7.45	7.45	–	–
Chang Chu Fai Johnson Francis	–	200,000	–	–	–	200,000	6/9/2005	7/9/2005 to 6/9/2015	4.57	4.35	–	–
Others												
Members of senior management and other employees of the Group	–	2,400,000	–	–	–	2,400,000	24/2/2005	25/2/2005 to 24/2/2015	5.76	5.70	–	–
	100,000	–	–	–	–	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	–	–
	6,000,000	–	(2,400,000)	–	–	3,600,000	15/10/2004	16/10/2004 to 15/10/2014	4.68	4.55	–	7.10
	6,100,000	2,400,000	(2,400,000)	–	–	6,100,000						
In aggregate	6,900,000	–	(2,400,000)	–	–	4,500,000						
	–	5,300,000	–	(200,000)	(2,300,000)	2,800,000						
	6,900,000	5,300,000	(2,400,000)	(200,000)	(2,300,000)	7,300,000						

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

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

27. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year was HK$4,340,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	3.22-5.45
Expected volatility (%)	41-60
Historical volatility (%)	41-60
Risk-free interest rate (%)	0.79-3.34
Expected life of option (year)	0.75
Exercise price (HK$)	4.57-7.45
Share price at grant date (HK$)	4.40-7.45

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 2,400,000 share options exercised during the year resulted in the issue of 2,400,000 ordinary shares of the Company and new share capital of HK$240,000 and share premium of HK$10,980,000 (before issue expenses), as further detailed in note 26 to the financial statements.

At the balance sheet date, the Company had 7,300,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,300,000 additional ordinary shares of the Company and additional share capital of HK$730,000 and share premium of HK$36,648,000 (before issue expenses).

Subsequent to the balance sheet date, on 2 January 2006, a total of 1,500,000 share options were granted to certain of the senior management of the Company in respect of their service to the Group in the forthcoming year. These share options have an exercise price of HK$3.60 per share and an exercise period from 3 January 2006 to 2 January 2016. The price of the Company's shares at the date of grant was HK$3.60 per share.

At the date of approval of these financial statements, the Company had 8,800,000 share options outstanding under the Scheme, which represented approximately 3% of the Company's shares in issue as at that date.

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28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 29 of the financial statements.

(b) Company

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes(a)&(b)) HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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 2004 dividend		–	–	–	(34,113)	(34,113)
At 1 January 2005		19,541	45,144	–	(42,051)	22,634
Issue of shares	26	98,000	–	–	–	98,000
Repurchase of shares	26	(23,623)	–	–	–	(23,623)
Share options exercised	26	10,980	–	–	–	10,980
Share issue expenses	26	(2,552)	–	–	–	(2,552)
Equity-settled share option arrangements	27	–	–	4,340	–	4,340
Net profit for the year		–	–	–	51,443	51,443
Interim 2005 dividend	12	–	–	–	(25,612)	(25,612)
Proposed final 2005 dividend	12	–	–	–	(14,306)	(14,306)
At 31 December 2005		102,346	45,144	4,340	(30,526)	121,304

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 Company's 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.

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29. ACQUISITION OF BUSINESS

During the year, the Group acquired certain outlets from its franchisees. These outlets are engaged in the retailing of furniture. The purchase consideration for the acquisition was in the form of cash, with HK$20,041,000 prepaid in 2004, HK$3,047,000 paid in 2005, and the remaining HK$2,565,000 unpaid as at the balance sheet date.

In 2004, 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 Mainland China.

The fair values of the identifiable assets and liabilities of the acquired outlets as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**2005** Fair value recognised on acquisition HK$'000	**2005** Carrying amount HK$'000	2004 Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	**2,162**	**2,162**	238
Cash and bank balances		**–**	**–**	302
Trade receivables		**191**	**191**	–
Prepayments, deposits and other receivables		**1,953**	**1,953**	17,024
Inventory		**4,355**	**4,355**	–
Trade payables		**(3,964)**	**(3,964)**	(12,070)
Accruals and other payables		**(497)**	**(497)**	(10,151)
		4,200	**4,200**	(4,657)
Goodwill on acquisition	17	**21,454**		4,657
Satisfied by cash		**25,654**		5,197

29. ACQUISITION OF BUSINESS (CONTINUED)

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

	2005	2004
	HK$'000	HK$'000
Cash consideration	**(3,047)**	(5,197)
Cash and bank balances acquired	**–**	302
Net outflow of cash and cash equivalents in respect of the acquisition of business	**(3,047)**	(4,895)

Since its acquisition, the acquired outlets contributed HK$39,187,000 to the Group's turnover and HK$1,514,000 to the consolidated profit for the year ended 31 December 2005.

Had the combination taken place at the beginning of the year, the turnover and profit of the Group for the year would have been HK$416,819,000 and HK$78,330,000 respectively.

30. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**17,385**	3,924
In the second to fifth years, inclusive	**30,331**	14,875
After five years	**4,049**	7,738
	51,765	26,537

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

During the current year, the Group paid HK$29,015,000 (2004: HK$64,555,000) to acquire property, plant and equipment.

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32. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for:		
– the construction of land and buildings	**1,327**	358
– the purchase of plant and machinery	**865**	–
– the acquisition of outlets of franchisees	**–**	6,354
	2,192	6,712

33. CONTINGENT LIABILITIES

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

34. RELATED PARTY TRANSACTIONS

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

	Group	
	2005	2004
	HK$'000	HK$'000
Associate:		
Sale of products	**5,681**	–

The sales to the associate were made according to the published prices and conditions offered to the major customers of the Group.

(b) Outstanding balance with an associate:

Details of the Group's trade balance with its associate as at the balance sheet date is disclosed in notes 21 to the financial statements.

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34. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,079**	710
Discretionary bonuses	**654**	662
Pension scheme contributions	**26**	25
Total compensation paid to key management personnel	**1,759**	1,397

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

35. POST BALANCE SHEET EVENT

On 2 January 2006, 1,500,000 share options were granted to certain of the senior management of the Group, as further detailed in note 27 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise its bank loan and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency exchange risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recongised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency exchange risk

The Group's investments in Mainland China are mainly through its subsidiaries and associate, which conduct business within Mainland China. Apart from interest payable, the repayment of a loan obtained to finance the acquisition of an office in Hong Kong and any potential future dividend of its subsidiaries and associate which may be declared to its shareholders, its major turnover, capital investment and expenses are denominated in Renminbi. The Group did not experience any difficulties in obtaining government approval for its necessary foreign-exchange purchases. During the year, the Group did not issue any financial instruments for hedging purposes.

37. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2006.