

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 21 November 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares in January 2001, the Company became the holding company of the companies now comprising the Group on 19 December 2000 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Legend Wealth Holdings Limited ("Legend Wealth"), the then holding company of the subsidiaries listed in note 14 to the financial statements, in consideration of and in exchange for the allotment and issue of 999,900 new ordinary shares of HK\$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholders of Legend Wealth, and the existing 100 nil paid shares, credited as fully paid at par. Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 24 and 14, respectively, to the financial statements and in the Company's prospectus dated 9 January 2001.

2. CORPORATE INFORMATION

The registered office of the Company is located at Zephyr House, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, the British West Indies.

During the year, the Group was engaged in the design, manufacture and sale of a wide range of plush stuffed toys as well as decorative gift items.

The Company is a subsidiary of Legend Win Profits Limited, a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company as at the balance sheet date.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

NOTES TO FINANCIAL STATEMENTS

31 December 2000

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 19 December 2000. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the years ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 1999 has been prepared on the basis that the existing Group had been in place at that date.

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Comparative amounts have not been presented for the Company because the Company did not exist as at 31 December 1999.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Related parties

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

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

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

Leasehold land	Over the lease terms
Buildings	2% – 5%
Leasehold improvements	10%
Plant and machinery	10%
Moulds	10%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	20%

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

All of the Group's leasehold land and buildings prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were stated at cost less accumulated depreciation. The financial effect involved in the remeasurement of the Group's leasehold land and buildings on a valuation basis principally involved the incorporation of a surplus on revaluation in the amount of HK\$73,507,000, which is dealt with in the movement of fixed assets revaluation reserve set out in note 25 to the financial statements. Further details of the change in accounting policy for the remeasurement of the Group's leasehold land and buildings are set out in note 13 to the financial statements.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

On disposal of an investment property, the relevant portion of the investment properties revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing 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.

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Trade debtors

Trade debtors, which generally have credit terms of 7 to 90 days, are recognised and carried at original invoiced amounts less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Research and development costs

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

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

Deferred development costs are amortised using the straight-line basis over the expected commercial lives of the underlying products, subject to a maximum period of five years, commencing from the date when the products are put into commercial production.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension costs

The Group operates a defined contribution pension scheme for its eligible employees, the assets of which are held separately from those of the Group in an independently administered fund. The Group's contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. Forfeited employer's contributions in respect of employees who leave the scheme before their interests vest fully revert to the Group to offset future employer's contributions. The Group has obtained a certificate of exemption issued by the Mandatory Provident Fund Scheme Authority pursuant to Section 5 of the Mandatory Provident Fund Schemes Ordinance ("MPFS Ordinance") which allows exemption from the operation of all provisions of the MPFS Ordinance.

Employees in the People's Republic of China ("PRC") are enrolled in the mandatory central pension scheme operated by the local municipal government. The Group is required to make a contribution of 20% of its PRC monthly payroll to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired PRC employees. The only obligation of the Group with respect to the central pension scheme is to meet the required contributions under the scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Deferred tax

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

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;
- rental income, on a straight-line basis over the lease terms; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks which are repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>By principal activity</u>		
Manufacture and trading of:		
Plush stuffed toys	78,929	66,069
Decorative gift items	60,415	49,853
	139,344	115,922
Turnover		
Bank interest income	101	13
Interest income on an amount due from a director	2,008	3,300
Gross rental income	25	25
Exchange gains, net	614	88
Others	534	214
	3,282	3,640
Other revenue		
Total revenue	142,626	119,562

The Group's turnover is further analysed below by geographical area of principal market of the Group's products.

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
North America	61,961	55,898
Europe	26,355	23,741
PRC:		
Hong Kong	306	861
Elsewhere	45,953	27,118
Others	4,769	8,304
	139,344	115,922
Turnover		
	139,344	115,922

NOTES TO FINANCIAL STATEMENTS

31 December 2000

5. PROFIT FROM OPERATING ACTIVITIES

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

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold	66,695	63,677
Research and development costs	1,102	1,130
Auditors' remuneration	800	180
Depreciation:		
Owned assets	4,406	3,691
Leased assets	–	2
Loss on disposal of fixed assets	–	269
Operating lease rentals on land and buildings	660	847
Staff costs (excluding directors' remuneration):		
Salaries and wages	13,190	12,261
Pension scheme contributions	444	466
Less: Forfeited contributions	(26)	(35)
	<u>418</u>	<u>431</u>
and after crediting:		
Exchange gains, net	614	88
Bank interest income	101	13
Interest income on an amount due from a director	2,008	3,300
Net rental income	<u>22</u>	<u>22</u>

The cost of inventories sold includes approximately HK\$11,323,000 (1999: HK\$9,685,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

5. PROFIT FROM OPERATING ACTIVITIES (continued)

The profit from operating activities by principal activity and by geographical area of principal market of the Group's products is analysed as follows:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>By principal activity</u>		
Manufacture and trading of:		
Plush stuffed toys	26,224	19,481
Decorative gift items	26,741	16,011
	<hr/>	<hr/>
Profit from operating activities	<u>52,965</u>	<u>35,492</u>
 <u>By geographical area</u>		
North America	20,141	16,451
Europe	11,400	7,424
PRC:		
Hong Kong	99	260
Elsewhere	19,344	8,671
Others	1,981	2,686
	<hr/>	<hr/>
Profit from operating activities	<u>52,965</u>	<u>35,492</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

6. DIRECTORS' REMUNERATION

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

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	500	500
Independent non-executive directors	—	—
	500	500
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	3,504	2,659
Pension scheme contributions	194	185
	3,698	2,844
	4,198	3,344

There were no fees or other emoluments paid or payable to the independent non-executive directors for the period.

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

	Group	
	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	2	2
	5	3
	5	3

During the period, there were no bonuses paid to or receivable by the directors (1999: Nil). No director waived or agreed to waive any remuneration during the period (1999: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (1999: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2000

7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (1999: three) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (1999: two) highest paid, non-director individuals, which both fell within the Nil – HK\$1,000,000 band, are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Basic salaries, other allowances and benefits in kind	734	645
Pension scheme contributions	62	46
	<u>796</u>	<u>691</u>

During the year, there were no bonuses paid to or receivable by any of the five highest paid individuals of the Group (1999: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (1999: Nil).

8. FINANCE COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	4,250	4,800
Interest on finance leases	1	2
	<u>4,251</u>	<u>4,802</u>

9. TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
Group:		
Current year provision:		
Hong Kong	3,572	2,397
Elsewhere	3,773	2,241
Rebate relating to prior year	–	(127)
Deferred tax credit (note 23)	(69)	(48)
	<u>7,276</u>	<u>4,463</u>
Tax charge for the year		

NOTES TO FINANCIAL STATEMENTS

31 December 2000

9. TAX (continued)

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates applicable in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian (福建莆田市僑雄輕工有限公司) (“KH Light”) and Qiao Xiong Toys Co., Ltd. Putian Fujian (福建省莆田市僑雄玩具有限公司) (“QX Toys”), the Group’s subsidiaries established and operating in the PRC, were both exempt from PRC corporate income tax for the first two profitable years of operations starting from 1998, and thereafter, are eligible for a 50% relief from PRC corporate income tax for the following three years under the Income Tax Law of the PRC. For the year ended 31 December 2000, PRC corporate income tax has been provided at the reduced rate of 12% on the estimated assessable profits generated by KH Light and QX Toys in respect of their third profit-making year. For the year ended 31 December 1999, KH Light and QX Toys were exempt from PRC corporate income tax in respect of their second profit-making year.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 21 November 2000 (date of incorporation) to 31 December 2000 was approximately HK\$122,000.

11. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividends for the years ended 31 December 1999 and 2000 were declared and paid by certain subsidiaries of the Company to their then shareholders prior to the Group Reorganisation, which was completed on 19 December 2000. Details of the Group Reorganisation are set out in note 1 to the financial statements and in the Company’s prospectus dated 9 January 2001.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$41,438,000 (1999: HK\$26,227,000) and the weighted average of 165,000,000 (1999: 165,000,000) ordinary shares.

The weighted average number of shares used to calculate the basic earnings per share for the two years ended 31 December 2000 includes the pro forma issued share capital of the Company, comprising one subscriber share issued nil paid upon incorporation of the Company, 99 ordinary shares issued nil paid to the then shareholders of Legend Wealth prior to the Group Reorganisation, 999,900 ordinary shares issued for the acquisition of Legend Wealth, and the capitalisation issue of 164,000,000 ordinary shares, as set out in detail in note 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

12. EARNINGS PER SHARE (continued)

There were no potential dilutive ordinary shares in existence for the two years ended 31 December 2000, and accordingly, no diluted earnings per share has been presented.

13. FIXED ASSETS

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At 1 January 2000	714	27,771	1,665	17,928	4,359	3,730	1,636	57,803
Additions	-	3,429	135	4,215	291	140	-	8,210
Surplus on revaluation	266	69,001	-	-	-	-	-	69,267
At 31 December 2000	<u>980</u>	<u>100,201</u>	<u>1,800</u>	<u>22,143</u>	<u>4,650</u>	<u>3,870</u>	<u>1,636</u>	<u>135,280</u>
Analysis of cost or valuation:								
At cost	-	-	1,800	22,143	4,650	3,870	1,636	34,099
At valuation	980	100,201	-	-	-	-	-	101,181
	<u>980</u>	<u>100,201</u>	<u>1,800</u>	<u>22,143</u>	<u>4,650</u>	<u>3,870</u>	<u>1,636</u>	<u>135,280</u>
Accumulated depreciation:								
At 1 January 2000	-	3,604	802	7,940	1,402	1,766	1,181	16,695
Provided during the year	-	984	186	1,968	450	523	295	4,406
Written back on revaluation	-	(4,506)	-	-	-	-	-	(4,506)
At 31 December 2000	<u>-</u>	<u>82</u>	<u>988</u>	<u>9,908</u>	<u>1,852</u>	<u>2,289</u>	<u>1,476</u>	<u>16,595</u>
Net book value:								
At 31 December 2000	<u>980</u>	<u>100,119</u>	<u>812</u>	<u>12,235</u>	<u>2,798</u>	<u>1,581</u>	<u>160</u>	<u>118,685</u>
At 31 December 1999	<u>714</u>	<u>24,167</u>	<u>863</u>	<u>9,988</u>	<u>2,957</u>	<u>1,964</u>	<u>455</u>	<u>41,108</u>

All of the Group's leasehold land and buildings were revalued on 31 October 2000 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, on a depreciated replacement cost basis at HK\$100,201,000. A surplus of HK\$73,507,000 arising therefrom, which represented the excess of the revalued amounts over the then carrying values of the revalued assets, on an individual asset basis, has been credited to the fixed assets revaluation reserve (note 25).

NOTES TO FINANCIAL STATEMENTS

31 December 2000

13. FIXED ASSETS (continued)

An analysis of the cost or valuation of the Group's leasehold land and buildings at the balance sheet date is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Medium term leases held in Hong Kong	1,020	934
Medium term leases held outside Hong Kong	99,181	26,837
	<u>100,201</u>	<u>27,771</u>

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$26,612,000 (1999: HK\$24,167,000).

The investment properties of the Group are all situated in Hong Kong and are held under medium term leases. They were revalued on 31 October 2000 by LCH (Asia-Pacific) Surveyors Limited on an open market, existing use basis at HK\$980,000. A surplus of HK\$266,000 arising therefrom, which represented the excess of the revalued amounts over the then carrying values of the revalued assets has been credited to the investment properties revaluation reserve (note 25). As advised by a firm of independent professional valuers, there were no material differences between the values of the investment properties as at 31 October 2000 and at the balance sheet date.

The net book values of the fixed assets of the Group held under finance leases included in the total amount of fixed assets are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Equipment	<u>-</u>	<u>22</u>

At 31 December 2000, the Group's investment properties and certain of the Group's leasehold land and buildings with carrying values of approximately HK\$980,000 and HK\$95,536,000, respectively, were pledged to secure general banking facilities granted to the Group as detailed in note 21 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

14. INTERESTS IN SUBSIDIARIES

Company	2000 <i>HK\$'000</i>
Unlisted shares, at cost	125,261
Due to a subsidiary	(1,999)
	123,262

The amount due to a subsidiary is unsecured, interest-free and not repayable in the next twelve months.

Particulars of the subsidiaries of the Company as at 31 December 2000 were as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/registered capital	Attributable equity interest	Principal activities
<u>Held directly</u>				
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	Ordinary US\$50,500	100%	Investment holding
<u>Held indirectly</u>				
Kiu Hung International Enterprises Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred (Note (a)) HK\$10,000	100%	Investment holding, and manufacture and trading of decorative gift items
Kiu Hung Toys Company Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred (Note (a)) HK\$10,000	100%	Investment holding, and manufacture and trading of toys
Turkasians Ltd	BVI	Ordinary US\$100	100%	Manufacture and trading of decorative gift items and toys

NOTES TO FINANCIAL STATEMENTS

31 December 2000

14. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/registered capital	Attributable equity interest	Principal activities
<u>Held indirectly (continued)</u>				
China Venturers Textiles Limited	BVI	Ordinary US\$50,000	100%	Provision of quality control services in the PRC
Cherfit Services Limited	BVI	Ordinary US\$100	100%	Provision of marketing and promotion, and management services in the PRC
Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian 福建莆田市僑雄輕工有限公司 (Note (b))	PRC	US\$5,000,000	100%	Manufacture of decorative gift items
Qiao Xiong Toys Co., Ltd. Putian Fujian 福建省莆田市僑雄玩具有限公司 (Note (c))	PRC	HK\$10,000,000	100%	Manufacture of toys

Notes:

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).
- (b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US\$5,000,000 which has been wholly paid up by the Group.
- (c) Qiao Xiong Toys Co., Ltd. Putian Fujian, is a wholly foreign-owned enterprise established in the PRC for a tenure of 50 years commencing from the date of the issuance of its business licence on 15 May 1996. Its registered capital is HK\$10,000,000 which has been wholly paid up by the Group.

All subsidiaries operate principally in their places of incorporation/establishment unless specified otherwise under "Principal activities".

NOTES TO FINANCIAL STATEMENTS

31 December 2000

15. CASH AND CASH EQUIVALENTS

The cash and cash equivalents represented cash and bank balances.

Included in the cash and cash equivalents as at 31 December 2000 was HK\$8,509,000 (1999: HK\$743,000) cash and bank balances which were denominated in Renminbi ("RMB"). RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

16. TRADE AND BILLS RECEIVABLES

The aged analysis of trade and bills receivables was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current – 30 days	11,302	2,194
31 days – 90 days	6,522	6,351
91 days – 180 days	593	–
	<u>18,417</u>	<u>8,545</u>

17. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	11,185	10,612
Work in progress	3,954	2,893
Finished goods	592	1,933
	<u>15,731</u>	<u>15,438</u>

No inventories were stated at net realisable value as at 31 December 2000 (1999: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2000

18. DUE FROM A DIRECTOR

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

Group	Balance at 31 December 2000 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>	Balance at 1 January 2000 <i>HK\$'000</i>
Mr. Hui Kee Fung	–	45,900	40,105

Name of director	Balance at 31 December 1999 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>	Balance at 1 January 1999 <i>HK\$'000</i>
Mr. Hui Kee Fung	40,105	56,105	28,598

The amount due from a director was unsecured and bore interest at the prevailing lending rates offered by banks to the Group. The amount was fully settled during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Bank overdrafts (note 21)	–	2,728
Current portion of bank loans (note 21)	17,615	46,624
Trust receipt loans (note 21)	681	860
Current portion of finance lease payables (note 22)	–	4
	<u>18,296</u>	<u>50,216</u>

20. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current – 30 days	1,161	298
31 days – 90 days	1,048	1,576
91 days – 180 days	714	451
181 days – 360 days	23	39
	<u>2,946</u>	<u>2,364</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

21. INTEREST-BEARING BANK BORROWINGS

	2000	Group
	<i>HK\$'000</i>	<i>1999</i> <i>HK\$'000</i>
Bank overdrafts:		
Secured	–	2,530
Unsecured	–	198
	–	2,728
Bank loans:		
Secured	35,467	49,409
Unsecured	–	3,215
	35,467	52,624
Trust receipt loans:		
Secured	681	860
Unsecured	–	–
	681	860
	36,148	56,212
Bank overdrafts repayable on demand (note 19)	–	2,728
Bank loans repayable:		
Within one year (note 19)	17,615	46,624
In the second year	14,653	6,000
In the third to fifth years, inclusive	3,199	–
Trust receipt loans repayable within one year (note 19)	681	860
	36,148	56,212
Portion classified as current liabilities	(18,296)	(50,212)
Non-current portion	17,852	6,000

NOTES TO FINANCIAL STATEMENTS

31 December 2000

21. INTEREST-BEARING BANK BORROWINGS (continued)

At 31 December 2000, the banking facilities of the Group were secured by:

- (i) first legal charges on the Group's investment properties and certain of the Group's leasehold land and buildings with carrying values of approximately HK\$980,000 and HK\$95,536,000, respectively (note 13);
- (ii) first legal charges on certain leasehold land and buildings located in the PRC of certain related companies;
- (iii) personal guarantees executed by certain executive directors of the Company; and
- (iv) corporate guarantees executed by certain related companies.

The Group has received consent, in principle, from the relevant bankers to the effect that the legal charges and guarantees stated in (ii) to (iv) above will be released and replaced by corporate guarantees of the Company and/or other security provided by members of the Group, following the listing of the shares of the Company on the Stock Exchange on 22 January 2001. The directors understand that the bankers are currently in the process of finalising the relevant documentation for the release and replacement of the legal charges and guarantees stated above.

22. FINANCE LEASE PAYABLES

There were commitments under finance leases at the balance sheet date as follows:

	2000 HK\$'000	Group 1999 HK\$'000
Amounts payable within one year and total minimum finance lease payments	–	6
Future finance charges	–	(2)
Total net finance lease payables	–	4
Portion classified as current liabilities (note 19)	–	(4)
Non-current portion	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2000

23. DEFERRED TAX

	Group	
	2000	1999
	HK\$'000	HK\$'000
At beginning of year	1,095	1,143
Credit for the year (note 9)	(69)	(48)
At 31 December	<u>1,026</u>	<u>1,095</u>

The Group's provision for deferred tax is made principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Group did not have any significant unprovided deferred tax liabilities as at 31 December 2000 (1999: Nil).

The revaluation surplus of the Group's investment properties and leasehold land and buildings in Hong Kong does not constitute a timing difference, and consequently, the amount of potential deferred tax thereon has not been quantified. No deferred tax has been provided on the revaluation surplus of the Group's leasehold land and buildings situated in the PRC as the Group presently does not have any intention to dispose of its leasehold land and buildings.

24. SHARE CAPITAL

Shares

	HK\$'000
Authorised:	
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>
Issued and fully paid:	
1,000,000 ordinary shares of HK\$0.10 each	<u>100</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

24. SHARE CAPITAL (continued)

Shares (continued)

The following movements in the Company's authorised and issued share capital took place during the period from 21 November 2000 (date of incorporation) to the date of approval of these financial statements:

- (i) Upon incorporation, the authorised share capital of the Company was HK\$380,000, divided into 3,800,000 ordinary shares of HK\$0.10 each.
- (ii) On 30 November 2000, one subscriber share of HK\$0.10 each was allotted and issued nil paid. On the same date, the Company also allotted and issued a further 99 nil paid ordinary shares of HK\$0.10 each.
- (iii) On 19 December 2000, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 996,200,000 additional ordinary shares of HK\$0.10 each, ranking pari passu with the existing ordinary shares of the Company.
- (iv) On 19 December 2000, as part of the Group Reorganisation described in note 1, the Company (a) issued an aggregate of 999,900 new ordinary shares of HK\$0.10 each credited as fully paid at par, and (b) credited as fully paid at par the existing 100 ordinary shares issued nil paid on 30 November 2000 as set out in (ii) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Legend Wealth. The excess of the fair value of the shares of Legend Wealth, determined on the basis of the consolidated net assets of Legend Wealth at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$125,161,000, was credited to the Company's capital reserve as detailed in note 25 to the financial statements.
- (v) On 19 December 2000, a total of 164,000,000 ordinary shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares of the Company whose names appeared on the register of members of the Company at the close of business on that date, in proportion to their then respective shareholdings, by way of the capitalisation of the sum of HK\$16,400,000 standing to the credit of the share premium account of the Company, conditional upon the share premium account being credited as a result of the new issue and placing of shares to the public as detailed in (vi) below. For the purpose of preparing the financial statements of the Group for the years ended 31 December 1999 and 2000, these shares are deemed to have been in issue, nil paid, since 1 January 1999.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

24. SHARE CAPITAL (continued)

Shares (continued)

- (vi) Subsequent to the balance sheet date, on 18 January 2001, in connection with the Company's initial public offering, 55,000,000 ordinary shares of HK\$0.10 each were issued to the public at HK\$1.00 each for a total cash consideration, before related expenses of HK\$55,000,000.

A summary of the above movements in the issued share capital of the Company is as follows:

	<i>Notes</i>	Number of shares issued	Par value HK\$'000
Subscriber share allotted and issued nil paid, and subsequently credited as fully paid at par for the acquisition of the entire issued share capital of Legend Wealth	<i>(ii)</i>	1	–
Shares allotted and issued nil paid, and subsequently credited as fully paid at par for the acquisition of the entire issued share capital of Legend Wealth	<i>(ii)</i>	99	–
Shares issued as a consideration for the acquisition of the entire issued share capital of Legend Wealth	<i>(iv)</i>	999,900	100
Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the new issue and placing of shares to the public	<i>(v)</i>	<u>164,000,000</u>	<u>–</u>
Pro forma issued share capital as at 31 December 1999 and 2000		165,000,000	100
New issue and placing of shares to the public	<i>(vi)</i>	55,000,000	5,500
Capitalisation of the share premium account	<i>(v)</i>	<u>–</u>	<u>16,400</u>
Share capital at the date of approval of these financial statements		<u><u>220,000,000</u></u>	<u><u>22,000</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2000

24. SHARE CAPITAL (continued)

Share options

On 19 December 2000, the Company adopted a share option scheme (the "Scheme") conditional upon the listing of the Company's shares, under which the directors may, at their discretion, invite any full-time employees of the Company or any of its subsidiaries, including any directors (other than non-executive directors), to take up options to subscribe for shares in the Company. The subscription price is determined by the directors, but may not be less than the higher of the nominal value of the Company's shares or 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option. A nominal cash consideration of HK\$1.00 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme is 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Scheme or any other share option scheme.

No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under all of the options previously granted to him together with the said option exceeding 25% of the number of shares issued and issuable under all of the options which may be granted under the Scheme at the time it is proposed to grant the relevant option to that person.

The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 22 January 2001, subsequent to the balance sheet date. As at the date of approval of these financial statements, no options had been granted or agreed to be granted under the Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

25. RESERVES

Group	Investment				Retained profits	Total
	Capital reserve	Exchange fluctuation reserve	properties revaluation reserve	Fixed assets revaluation reserve		
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	<i>(note (a))</i>					
At 1 January 1999	312	(2,857)	112	453	38,536	36,556
Net profit for the year	–	–	–	–	26,227	26,227
Dividends	–	–	–	–	(24,440)	(24,440)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1999 and 1 January 2000	312	(2,857)	112	453	40,323	38,343
Issue of shares	390	–	–	–	–	390
Revaluation surplus	–	–	266	73,507	–	73,773
Net profit for the year	–	–	–	–	41,438	41,438
Dividends	–	–	–	–	(28,000)	(28,000)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000	<u>702</u>	<u>(2,857)</u>	<u>378</u>	<u>73,960</u>	<u>53,761</u>	<u>125,944</u>

Company	Capital Accumulated		Total
	reserve	losses	
	HK\$ '000	HK\$ '000	HK\$ '000
	<i>(note (a))</i>		
Arising on acquisition of Legend Wealth – note 24	125,161	–	125,161
Net loss for the period	–	(122)	(122)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000	<u>125,161</u>	<u>(122)</u>	<u>125,039</u>

Notes:

- (a) The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements over the nominal value of the shares of the Company issued in exchange therefor.

The capital reserve of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

- (b) The Company had distributable reserves of approximately HK\$125,039,000 at 31 December 2000. Under the Companies Law (2000 Revision) of the Cayman Islands, the capital reserve is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	Group	
	2000	1999
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Profit from operating activities	52,965	35,492
Interest income	(2,109)	(3,313)
Depreciation	4,406	3,693
Loss on disposal of fixed assets	–	269
Decrease/(increase) in inventories	(293)	630
Increase in trade and bills receivables	(9,872)	(327)
Increase in prepayments, deposits and other receivables	(2,052)	(209)
Increase in trade and bills payables	582	309
Increase in other payables and accruals	2,845	624
	<hr/>	<hr/>
Net cash inflow from operating activities	46,472	37,168

(b) Analysis of changes in the Group's financing during the year

	Bank loans	Finance lease obligations
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
At 1 January 1999	52,977	17
Net cash outflow from financing	(760)	(13)
Increase in bank loans with original maturity of less than three months	407	–
	<hr/>	<hr/>
At 31 December 1999 and 1 January 2000	52,624	4
Net cash outflow from financing	(17,595)	(4)
Increase in bank loans with original maturity of less than three months	438	–
	<hr/>	<hr/>
At 31 December 2000	35,467	–

NOTES TO FINANCIAL STATEMENTS

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

- (i) The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Legend Wealth by the issue of shares of the Company, further details of which are set out in notes 1 and 24 to the financial statements.
- (ii) During the year, interim dividends totalling HK\$28,000,000 were declared by certain subsidiaries of the Company and settled through the current account with a director.

27. COMMITMENTS

At the balance sheet date, the Group had the following commitments payable under non-cancellable operating leases in the following year in respect of:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	720	–
In the second to fifth years, inclusive	–	–
Beyond five years	328	328
	<u>1,048</u>	<u>328</u>

The Company had no material commitments at the balance sheet date.

28. POST BALANCE SHEET EVENTS

- (a) In addition to the matters set out in note 24 to the financial statements, on 22 January 2001, the Company issued 55,000,000 ordinary shares of HK\$0.10 each to the public, upon the listing of its shares on the Stock Exchange, at HK\$1.00 per share for a total consideration, before related expenses of HK\$55,000,000.
- (b) On 30 March 2001, the Group entered into a sale and purchase agreement with an independent third party for the acquisition of the entire interest in Fuzhou Zheng Defu Toys Co., Ltd. ("Zheng Defu") at a total cash consideration of approximately HK\$6,542,000 (equivalent to Rmb7,000,000).

Zheng Defu was established in the PRC as a wholly foreign-owned enterprise with a tenure of 50 years commencing from the date of issuance of its business licence on 28 October 1992, and is principally engaged in the manufacture and sales of plush stuffed toys, plastic figurines, functional products, decorative gift items and knitting items with production facilities in Fuzhou, the PRC.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

29. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

Nature of transaction	Notes	2000 HK\$'000	1999 HK\$'000
Rental expenses paid to Newgary Development Limited ("Newgary")	(i)	660	660
Subcontracting fees paid to Qiao Xiong Industrial Company Limited Putian Fujian ("QX Industrial")	(ii)	–	3,065
Interest income on the amount due from a director	(iii)	<u>(2,008)</u>	<u>(3,300)</u>

Notes:

- (i) The rental expenses were paid to Newgary, a related company in which certain executive directors of the Company have beneficial interests, for leasing a property which was solely used by the Group as an office. The rental was determined between Newgary and the Group with reference to the then market conditions.
- (ii) The subcontracting fees paid in 1999 to QX Industrial, a related company in which certain executive directors of the Company have beneficial interests, were charged based on the costs incurred by QX Industrial plus a margin as determined between QX Industrial and the Group. There were no such transactions between QX Industrial and the Group in respect of the year ended 31 December 2000.
- (iii) The interest received from an executive director of the Company was charged at the prevailing lending rates offered by banks to the Group (note 18).
- (b) Certain of the credit facilities of the Group were secured by legal charges on certain leasehold land and buildings belonging to related companies, corporate guarantees from related companies and personal guarantees from certain executive directors of the Company, further details of which are set out in note 21 to the financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2001.