

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

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, 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 the Company's prospectus dated 9 January 2001. The Group Reorganisation involved companies under common control. The unaudited condensed consolidated interim 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 periods presented rather than from the date of acquisition of the subsidiaries. Accordingly, the unaudited consolidated results of the Group for the six months ended 30 June 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this is a shorter period.

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 2.125 "Interim Financial Reporting", except that no comparative figures have been presented for the unaudited condensed consolidated cash flow statement as allowed under the provisions of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2000.

These unaudited condensed interim financial statements have been reviewed by the audit committee of the Company and were approved by the board of directors on 28 August 2001.

Other investments

Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Profits or losses on disposal of other investments are accounted for in the profit and loss account as they arise.

2. 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:

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
By principal activity		
Manufacture and trading of:		
Toys and model kits	27,019	25,066
Decorative gift items	19,944	18,841
	<hr/>	<hr/>
Turnover	46,963	43,907
	<hr/>	<hr/>
Bank interest income	486	4
Interest income on an amount due from a director	–	1,423
Gross rental income	13	13
Exchange gains, net	47	100
Unrealised gains on other investments	707	–
Others	168	212
	<hr/>	<hr/>
Other revenue	1,421	1,752
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Total revenue	48,384	45,659
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The Group's turnover is further analysed below by geographical area of principal market of the Group's products.

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
By geographical area		
North America	19,453	15,456
Europe	5,065	8,091
PRC:		
Hong Kong	26	38
Elsewhere	20,991	18,857
Others	1,428	1,465
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Turnover	46,963	43,907
	<hr/> <hr/>	<hr/> <hr/>

3. Profit from operating activities

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

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Depreciation	3,257	2,189
Loss on disposal of fixed assets	445	-
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The profit from operating activities by principal activity and by geographical area of principle market of the Group's products is analysed as follows:

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
By principal activity		
Manufacture and trading of:		
Toys and model kits	5,967	7,280
Decorative gift items	5,225	4,594
	<u> </u>	<u> </u>
Profit from operating activities	11,192	11,874
	<u>11,192</u>	<u>11,874</u>
By geographical area		
North America	2,418	2,589
Europe	751	1,545
PRC:		
Hong Kong	4	6
Elsewhere	7,821	7,473
Others	198	261
	<u> </u>	<u> </u>
Profit from operating activities	11,192	11,874
	<u>11,192</u>	<u>11,874</u>

4. Finance Costs

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts		
Wholly repayable within five years	1,335	2,412
Interest on finance leases	-	1
	<u> </u>	<u> </u>
	1,335	2,413
	<u>1,335</u>	<u>2,413</u>

5. Tax

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Provision for the period:		
Hong Kong	57	137
Elsewhere	1,451	1,338
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Tax charge for the period	<u>1,508</u>	<u>1,475</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong for the period. 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 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 exempted from PRC corporate income tax for the first two 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 six months ended 30 June 2000 and 2001, 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.

6. Dividends

	Unaudited	
	Six months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Interim dividend of HK 2.5 cents per share (2000: nil)	5,500	-

7. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$8,349,000 (2000: HK\$7,986,000) and the weighted average of 214,834,254 (2000: 165,000,000) ordinary shares.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 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 described in the Company's prospectus dated 9 January 2001.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2001 includes the above-mentioned 165,000,000 pro forma issued share capital of the Company in issue prior to the listing of the Company's shares on the Stock Exchange and the 55,000,000 ordinary shares issued to the public on 18 January 2001 in connection with the Company's initial public offering.

There were no potential dilutive ordinary shares in existence for the periods ended 30 June 2000 and 2001, and accordingly, no diluted earnings per share has been presented.

8. Fixed assets

The changes in the net book value of fixed assets for the six months ended 30 June 2001 are analysed as follows:

	Unaudited <i>HK\$'000</i>
At 1 January 2001	118,685
Additions through acquisition of Fuzhou Zheng Defu Toys Co., Ltd.	2,570
Additions through acquisition of Newgary Development Limited	9,000
Other additions	7,464
Disposals	(445)
Depreciation	(3,257)
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At 30 June 2001	<u><u>134,017</u></u>

9. Trade and bills receivable

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

	Unaudited 30 June 2001 HK\$'000	Audited 31 December 2000 <i>HK\$'000</i>
Current – 30 days	11,508	11,302
31 – 90 days	8,064	6,522
91 – 180 days	2,414	593
181 days – 1 year	392	–
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	<u><u>22,378</u></u>	<u><u>18,417</u></u>

10. Trade and bills payables

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

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Current – 30 days	4,405	1,161
31 – 90 days	3,396	1,048
91 – 180 days	220	714
181 days – 1 year	30	23
	<u>8,051</u>	<u>2,946</u>

11. Share capital

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
	Number of	Par value
	shares issued	HK\$'000
Issued and fully paid:		
At 1 January 2001	1,000,000	100
New issue and placing of shares to the public	55,000,000	5,500
Capitalisation of the share premium account (note 12)	<u>164,000,000</u>	<u>16,400</u>
At 30 June 2001	<u>220,000,000</u>	<u>22,000</u>

During the period, 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. On the same date, 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 19 December 2000, 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.

12. Share premium

	Unaudited <i>HK\$'000</i>
At 1 January 2001	–
Arising from new issue and placing of shares to the public	37,195
Capitalisation of the share premium account (note 11)	<u>(16,400)</u>
At 30 June 2001	<u><u>20,795</u></u>

13. Related party Transactions

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

Nature of transaction	<i>Notes</i>	Unaudited	
		Six months ended	
		30 June	
		2001	2000
		HK\$'000	HK\$'000
Rental expense paid to Newgary Development Limited ("Newgary")	(i)	300	330
Interest income on the amount due From a director	(ii)	<u>–</u>	<u>(1,423)</u>

Notes:

- (i) The rental expenses were paid to Newgary, a related company in which certain executive directors 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. Newgary has become a wholly-owned subsidiary of the Company on 18 June 2001 upon the payment of a cash consideration of HK\$4,944,788 to the then shareholders of Newgary. Further details of the transactions are set out in the Company's announcement dated 18 June 2001.
 - (ii) The interest received from an executive director of the Company was charged at the prevailing lending rates offered by banks to the Group.
- (b) As at 30 June 2001, certain of the credit facilities of the Group were secured by personal guarantees from certain executive directors of the Company. Subsequent to the balance sheet date on 17 August 2001, such personal guarantees have been replaced by corporate guarantees of the Company.

BUSINESS REVIEW

The Group was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 January 2001. The net proceeds of the new issue and placing of shares of the Company amounted to approximately HK\$43 million, which will be used to finance the Group's capital expenditure and strengthen its capital base and financial position.

The Group reported healthy growth in revenue and profit for the six months ended 30 June 2001 (the "Period"). During the period, the Group's turnover and net profit attributable to shareholders were approximately HK\$47 million and HK\$8 million, respectively, representing increases of approximately 7% and 5%, respectively over the corresponding period in 2000. Earnings per share for the Period stood at 3.9 HK cents. Revenue from toys and model kits and decorative gift items has growth by approximately 8% and 6%, respectively, over the previous period. The pleasing increase in turnover was attributable from the broadening of the customer base and the management's continuous efforts in the development of new designs and new products. In addition, the completion of the acquisition of Fuzhou Zheng Defu Toys Co., Ltd. in April 2001 also contributed to the increase in turnover over the Period. The newly acquired business accounted for approximately 6% of the Group's turnover for the Period.