

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 Subsequent to the balance sheet date on 17 August 2001, such personal guarantees have been replaced by corporate guarantees of the Company.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.

During the Period, the Group has obtained the exclusive right to manufacture gifts and toys featuring “La La”, the mascot of the 21st Universiade held in Beijing. The products bear the Group’s brandname “Kcare” and have received encouraging responses from the market. The management believes that the manufacturing and sales of the mascot will enhance the Group’s reputation in the toy and gift industry and help promoting the Group’s brandname in the market.

The Group’s sales are subject to seasonal fluctuations and generally peak in the second half of the calendar year, especially in expectations of Christmas and the New Year. For the past three years, turnover of the Group attributable to sales in the second half of the year accounted for approximately 64%, 67% and 68%, respectively, of the Group’s turnover. The management expects sales for the current year will assimilate the same pattern as those in the past few years. The product development department will concentrate more effort on developing new products with more steady demand throughout the year to reduce the Group’s seasonal fluctuations in sales.

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the People’s Republic of China (the “PRC”). During the period, the Group recorded a net cash inflow of approximately HK\$11 million, which raised the total cash and cash equivalents to approximately HK\$35 million as at the balance sheet date. The Group’s cash and cash equivalents are mostly held in Hong Kong dollars and Renminbi.

The Group’s bank borrowings are made in Hong Kong dollars and Renminbi, approximately 86% of such borrowings bear interest at fixed lending rate. At 30 June 2001, the Group’s bank borrowings amounted to approximately HK\$31 million, out of which approximately 51% is repayable within one year. The gearing ratio of the Group calculated as a ratio of total debts to total assets has improved from approximately 20% as at 31 December 2000 to approximately 13% as at 30 June 2001. Net current assets at 30 June 2001 was approximately HK\$54 million and the current ratio was maintained at a healthy level of approximately 214%. As the Group’s transactions are mostly settled by Renminbi, Hong Kong dollars or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purpose is considered necessary.

At 30 June 2001, the Group’s investment properties and certain of the Group’s leasehold land and buildings with carrying value of approximately HK\$980,000 and HK\$103,095,000, respectively, were pledged to secure general banking facilities granted to the Group.

At 30 June 2001, the Group has a total of 1,850 employees of which 25 are based in Hong Kong and 1,825 in the PRC. Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

As part of our plan to broaden the customer base, to expand the distribution channels in the PRC market, to increase the production capacity and to develop new models and new products, the Group has acquired the entire interest of Fuzhou Zheng Defu Toys Co., Ltd, which is principally engaged in the trading and manufacturing of toys and model kits, at a consideration of approximately HK\$6.5 million. The acquisition was completed in April 2001 and the newly acquired business accounted for approximately 6% of the Group's turnover for the Period. In June 2001, the Group has completed the acquisition of Newgary Development Limited ("Newgary"), a related company in which certain executive directors had beneficial interests, at a consideration of approximately HK\$5 million. The assets of Newgary principally includes a property which is used by the Group as its principal place of business and warehouse in Hong Kong. The acquisition will reduce the future operating costs of the Group.

Moving forward, the Group will continue to develop new series of products with add-on features and functions to enhance its sales and market positions in the toy and decorative gift industries. To increase its marketing efforts and broaden its customer base, the Group will continue to expand its sales team and distribution channel in North America, Europe and the PRC. The Group also plans to establish retail outlets targeting the mass market in major cities in the PRC, including Beijing, Fuzhou, Chengdu and Shanghai to capture the continual rapid growth of consumer purchasing power in the PRC.

The Group raised approximately HK\$43 million net of related expenses from the issue of 55 million new shares in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 22 January 2001. As of 30 June 2001, the net proceeds have been applied as follows:

- approximately HK\$3 million for developing new models and new products;
- approximately HK\$5 million for establishing retail outlets and developing distribution channels in major cities in the PRC;
- approximately HK\$18 million as general working capital of the Group.

As the existing production capacity of the Group can still satisfy the current production requirements, the Group has postponed the installation still additional production lines for its production facilities. The Group has placed the unused balance of the net proceeds with licensed banks and financial institutions in Hong Kong and the PRC, which will be applied for the intended uses as set out in the Company's prospectus dated 9 January 2001.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2001, the interests of the directors of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

		Number of issued ordinary shares of HK\$0.10 each In the Company held and nature of interest			
Name of director		Personal Interest	Family interest	Corporate interest	Other interest
Mr. Hui Kee Fung	(Note)	-	-	156,750,000	-
Mr. Hui Ki Yau	(Note)	-	-	-	-
Ms. Hui Hung Tan, Teresa	(Note)	-	-	-	-
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Note: The 156,750,000 shares are held by Legend Win Profits Limited ("Legend Win"), a company incorporated in the British Virgin Islands. The issued share capital of Legend Win is beneficially owned by Mr. Hui Kee Fung, Mr. Hui Ki Yau, Ms. Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company which is incorporated in Hong Kong, limited by guarantee and does not have a share capital. Mr. Hui Kee Fung, Mr. Hui Ki Yau, and Ms. Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company or any of its associated corporations, as defined in the SDI Ordinance.