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 (Revised) of the Cayman Islands.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in January 2001, the Company became the holding company of the companies now comprising the Group on 19 December 2000, except for Fujian Kcare Giftoys Co., Ltd. (福建奇嘉禮品玩具有限公司), Newgary Development Limited, Fuzhou Zheng Defu Toys Co., Ltd. (福州正德福玩具有限公司), Kiu Hung Macau Commercial Offshore Limited, Bestever Development Limited, Top Point Investments Limited and Kiu Hung Investments Limited (collectively referred to as the "New Subsidiaries") which were acquired/established/incorporated subsequent to the completion of the Group Reorganisation. The Group Reorganisation was accomplished by acquiring the entire issued share capital of Legend Wealth Holdings Limited ("Legend Wealth"), the then holding company of the principal subsidiaries listed in note 17 to the financial statements (except for the New 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 are also set out in note 27 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 Century Yard, Cricket Square, Hutchius Drive, 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 toys and decorative gift items. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is Legend Win Profits Limited, which is incorporated in the British Virgin Islands.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs applicable to the Group are effective for the first time for the current year's financial statements:

–	SSAP 9 (Revised):	"Events after the balance sheet date"
–	SSAP 14 (Revised):	"Leases"
–	SSAP 18 (Revised):	"Revenue"
–	SSAP 26	"Segment reporting"
–	SSAP 28:	"Provisions, contingent liabilities and contingent assets"
–	SSAP 29:	"Intangible assets"
–	SSAP 30:	"Business combinations"
–	SSAP 31:	"Impairment of assets"
–	SSAP 32:	"Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP requires that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 25 and 32 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases as the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP requires the provisions to be discounted to their present value at the balance sheet date, where the effect of discounting is material. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This SSAP has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

4. 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, investment properties and short term investments, as further explained below.

Basis of presentation and consolidation

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 their acquisition, except for the New Subsidiaries which were acquired/established/incorporated subsequent to the completion of the Group Reorganisation and are therefore consolidated from their effective dates of acquisition/establishment/incorporation. Accordingly, the consolidated results of the Group for the year ended 31 December 2000 include the results of the Company and its subsidiaries, except for the New Subsidiaries, with effect from 1 January 2000 and the results of the New Subsidiaries since their respective dates of acquisition/establishment/incorporation.

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 are eliminated on consolidation.

Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses.

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.

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

Fixed assets and depreciation

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

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

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

Leasehold land	Over the lease terms
Buildings	2% - 5%
Leasehold improvements	10%
Plant and machinery	10%
Moulds	10% - 20%
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.

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the assets recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Goodwill

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

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

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

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

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

Short term investments

Short term investments are investments in listed equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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, any rental income being negotiated at arm's length. Such properties are not depreciated and are 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 property 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.

On disposal of an investment property, the relevant portion of the investment property 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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 profit and loss account.

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

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 unless its realisation is assured beyond reasonable doubt.

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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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.

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

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (the "MPFS Ordinance"), for those employees who are eligible to participate in the scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Pension Scheme") for those employees who were eligible to participate in this scheme. This Pension Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Pension Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited 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 MPFS Ordinance which allows exemption from the operation of all provisions of the MPFS Ordinance. Certain employees of the Group are still participating in the Pension Scheme notwithstanding that the MPF Scheme has operated since 1 December 2000.

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 19% (2000: 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.

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

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 time proportion 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;

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

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 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves in the balance sheets, 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 grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year as detailed in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operation and the products and services they provide. Each of the Group's business segment represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of business segments are as follows:

(a) the toys segment manufactures and trades traditional toys, fashionable toys such as cartoon character products, electronic stuffed toys, educational toys and model kits; and

(b) the decorative gift items segment manufactures and trades water globes, snow domes, figurines and functional household products such as stocking hangers, pins, magnets, pencil toffers, pencil sharpeners and photo frames.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, which is the PRC, North America, European Union and other regions. North America includes the United States of America and Canada, European Union consists mainly of France, Italy, Germany, United Kingdom and the Netherlands. Other regions mainly include Australia and some Asia and South America countries. Assets are attributed to the segments based on the location of the assets.

There are no intersegment sales and transfers between the business segments.

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group

	Toys		Decorative gift items		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers and total revenue	**74,705**	78,929	**48,103**	60,415	**122,808**	139,344
Segment results	**14,567**	25,969	**5,452**	24,935	**20,019**	50,904
Interest, rental income and unallocated gains					**3,349**	3,282
Unallocated expenses					**(3,560)**	(1,221)
Profit from operating activities					**19,808**	52,965
Finance costs					**(2,431)**	(4,251)
Profit before tax					**17,377**	48,714
Tax					**(3,919)**	(7,276)
Net profit from ordinary activities attributable to shareholders					**13,458**	41,438

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Toys		Decorative gift items		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**118,892**	102,641	**83,964**	77,394	**202,856**	180,035
Unallocated assets					**40,354**	1,997
Total assets					**243,210**	182,032
Segment liabilities	**19,891**	10,340	**12,154**	9,500	**32,045**	19,840
Unallocated liabilities					**31,488**	36,148
Total liabilities					**63,533**	55,988
Other segment information:						
Depreciation and amortisation	**3,297**	1,974	**4,221**	2,411	**7,518**	4,385
Unallocated amounts					**332**	21
					7,850	4,406
Other non-cash expenses	**2,318**	–	**2,956**	–	**5,274**	–
Capital expenditure	**7,167**	914	**8,502**	7,296	**15,669**	8,210
Unallocated amount					**25,248**	–
					40,917	8,210

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, result and certain asset and expenditure information for the Group's geographical segments.

Group

	PRC (including Hong Kong)		North America		European Union		Others		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**50,238**	46,259	**49,943**	61,961	**17,304**	26,355	**5,323**	4,769	**122,808**	139,344
Segment results	**21,686**	17,382	**(1,033)**	20,141	**(382)**	11,400	**(252)**	1,981	**20,019**	50,904

	PRC (including Hong Kong)		North America		European Union		Others		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:										
Segment assets	**195,544**	171,674	**7,038**	8,066	**269**	288	**5**	7	**202,856**	180,035
Capital expenditure	**15,669**	8,210	**–**	–	**–**	–	**–**	–	**15,669**	8,210

6. TURNOVER AND REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**122,808**	139,344
Other revenue and gains		
Bank interest income	**865**	101
Interest income on an amount due from a director	**–**	2,008
Gross rental income	**25**	25
Others	**982**	534
	1,872	2,668
Gains		
Exchange gains, net	**239**	614
Unrealised gain on short term investments	**1,238**	–
	1,477	614
	3,349	3,282

7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Cost of inventories sold	**68,635**	66,695
Depreciation	**7,760**	4,406
Inventory provision	**3,745**	–
Bad debt written-off	**100**	–
Write off of fixed assets	**1,429**	–
Research and development costs - current year expenditure	**1,048**	1,102
Goodwill amortisation for the year*	**90**	–
Minimum lease payments under operating leases in respect of land and buildings	**500**	660
Auditors' remuneration	**800**	800
Staff costs (excluding directors' remuneration – *note 9*):		
Salaries and wages	**15,636**	13,190
Retirement benefits schemes contributions	**431**	444
Less: Forfeited contributions	**–**	(26)
Net retirement benefits schemes contribution**	**431**	418

The cost of inventories sold includes approximately HK$18,637,000 (2000: HK$11,323,000) relating to staff costs, depreciation and inventory provision, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** At 31 December 2001, the Group had no forfeited contributions available to reduce its contributions to the Pension Scheme in future years (2000: Nil).

8. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**2,415**	4,250
Interest on finance leases	**16**	1
	2,431	4,251

9. DIRECTORS' REMUNERATION

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	500
Independent non-executive directors	**–**	–
	–	500
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	**4,256**	3,504
Retirement benefits schemes contributions	**348**	194
	4,604	3,698
	4,604	4,198

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

9. DIRECTORS' REMUNERATION (continued)

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

	Group	
	2001	2000
	Number of directors	Number of directors
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**2**	2
	5	5

During the year, there were no bonuses paid to or receivable by any of the directors (2000: Nil). There was no arrangement under which the directors waived or agreed to waive any remuneration during the year (2000: 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 (2000: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2000: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2000: two) non-director, highest paid individuals, both of which fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**1,153**	734
Retirement benefits schemes contributions	**77**	62
	1,230	796

During the year, there were no bonuses paid to or receivable by any of the five highest paid individuals of the Group (2000: Nil). No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2000: Nil).

11. TAX

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 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.

	2001	2000
	HK$'000	*HK$'000*
Group:		
Hong Kong	**233**	3,572
Elsewhere	**4,052**	3,773
Underprovision in prior year	**106**	–
Deferred - *note 26*	**(472)**	(69)
Tax charge for the year	**3,919**	7,276

Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian（福建莆田市僑雄輕工有限公司）("KH Light"), Qiao Xiong Toys Co., Ltd. Putian Fujian（福建省莆田市僑雄玩具有限公司）("QX Toys"), Fujian Kcare Giftoys Co., Ltd.（福建奇嘉禮品玩具有限公司）("Fujian Kcare") and Fuzhou Zheng Defu Toys Co., Ltd.（福州正德福玩具有限公司）("Zheng Defu"), the Group's subsidiaries established and operating in the PRC, were exempt from PRC corporate income tax for the first two profitable years of operations, 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 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 in respect of their fourth profit-making year (2000: 12%), while Zheng Defu was exempt from PRC corporate income tax in respect of its second profit-making year. No provision for the PRC corporate income tax has been made for Fujian Kcare as the subsidiary did not derive any assessable income during the year.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK$15,689,000 (2000: net loss of HK$122,000).

13. DIVIDENDS

	2001	2000
	HK$'000	*HK$'000*
Interim – HK2.5 cents (2000: Nil) per ordinary share	**5,500**	–
Proposed final – HK2.0 cents (2000: Nil) per ordinary share	**8,811**	–
Special	**–**	28,000
	14,311	28,000

The amount of the proposed final dividend is calculated based on 440,567,200 shares in issue as at the date of approval of these financial statements.

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

The special dividends for the year ended 31 December 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 notes 1 and 27 to the financial statements and in the Company's prospectus dated 9 January 2001.

14. 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$13,458,000 (2000: HK$41,438,000) and the weighted average of 433,691,086 (2000: 330,000,000) ordinary shares in issue during the year.

The prior year's weighted average number of shares in issue for the calculation of basic earnings per share has been adjusted for the one-for-one bonus issue of shares during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$13,458,000 and weighted average number of 440,106,605 ordinary shares in issue. The weighted average number of ordinary shares used in the calculation of diluted earning per share is the 433,691,086 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 6,415,519 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year.

A diluted earnings per share amount for the year ended 31 December 2000 has not been disclosed as no diluting events existed during that year.

15. FIXED ASSETS

Group

	Investment properties	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Moulds	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1 January 2001	980	100,201	1,800	22,143	4,650	3,870	1,636	135,280
Additions	6,300	13,399	151	7,311	667	461	1,141	29,430
Acquisition of subsidiaries	–	9,000	–	759	1,663	51	71	11,544
Write-off	–	–	–	(3,494)	–	(255)	–	(3,749)
Surplus on revaluation	–	(811)	–	–	–	–	–	(811)
At 31 December 2001	7,280	121,789	1,951	26,719	6,980	4,127	2,848	171,694
Accumulated depreciation:								
At 1 January 2001	–	82	988	9,908	1,852	2,289	1,476	16,595
Provided during the year	–	3,508	193	2,615	877	325	242	7,760
Write-off	–	–	–	(2,154)	–	(166)	–	(2,320)
Write back on revaluation	–	(3,590)	–	–	–	–	–	(3,590)
At 31 December 2001	–	–	1,181	10,369	2,729	2,448	1,718	18,445
Net book value:								
At 31 December 2001	7,280	121,789	770	16,350	4,251	1,679	1,130	153,249
At 31 December 2000	980	100,119	812	12,235	2,798	1,581	160	118,685
Analysis of cost or valuation:								
At cost	–	–	1,951	26,719	6,980	4,127	2,848	42,625
At 31 December 2001 valuation	7,280	121,789	–	–	–	–	–	129,069
	7,280	121,789	1,951	26,719	6,980	4,127	2,848	171,694

15. 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	
	2001	2000
	HK$'000	*HK$'000*
Medium term leases held in Hong Kong	**9,920**	1,020
Medium term leases held outside Hong Kong	**109,860**	99,181
Long term leases held outside Hong Kong	**2,009**	–
	121,789	100,201

The leasehold land and buildings situated in Hong Kong for office purposes and outside Hong Kong for residential, office and retail shop purposes were revalued by Castores Magi Surveyors Limited ("Castores"), an independent firm of professional valuers, at 31 December 2001 at HK$23,389,000 on an open market value basis. The medium term leasehold land and buildings situated outside Hong Kong for the Group's production facilities were revalued by Castores at 31 December 2001 at HK$98,400,000 on a depreciated replacement cost basis.

A total revaluation surplus of HK$2,779,000 arising therefrom and representing the surplus of the revalued amount over the then carrying values of the revalued assets, on an individual asset basis, has been credited to the fixed assets revaluation reserve (note 28).

The long term leasehold land and buildings situated outside Hong Kong for residential purpose acquired during the year with an aggregate carrying amount of HK$2,009,000 as at 31 December 2001, as considered by the directors, are intended to be used for staff quarters.

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$47,863,000 (2000: HK$26,612,000).

An analysis of the valuation of the Group's investment properties at the balance sheet date is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Medium term leases held in Hong Kong	**980**	980
Long term leases held outside Hong Kong	**6,300**	–
	7,280	980

15. FIXED ASSETS (continued)

All investment properties were revalued on an open market value basis by Castores as at 31 December 2001. There is no surplus or deficit arising from the revaluation. The investment properties held in Hong Kong include workshop nos. I and J on 10/F and a car parking space L12 on 1/F of Wing Kin Industrial Building, 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong. The investment properties held outside Hong Kong include 15 Houses of Fu Hao Villa, Phase 1, Jing Xi Town, Fuzhou Town, Fujian Province, the PRC. Certain of the investment properties are leased to third parties under operating leases, further details of which are included in note 32 to the financial statements.

Pursuant to various sale and purchase agreements (the "S&P Agreements") entered into between the Group and independent third parties, during the year, the Group acquired certain leasehold land and buildings for residential and retail shop purposes and investment properties in the PRC (the "New Properties") with net book value of approximately HK$10,409,000 and HK$6,300,000, respectively, at 31 December 2001. The consideration in respect of the acquisition of the New Properties was determined by reference to independent valuations made by Castores and had been fully settled as at 31 December 2001.

The Group is in the process of applying for the ownership certificates for the New Properties. As confirmed by a legal opinion issued by the Group's PRC lawyer, the S&P Agreements are legally valid under the laws of the PRC and there is no legal barrier or otherwise for the Group to obtain ownership certificates for the New Properties from the relevant PRC authority.

Pursuant to various agreements entered into between the Group and the Land Administration Bureau of Putian City (the "LAB"), an annual fee of HK$321,000 is payable to the LAB in respect of the Group's land and buildings in Putian City, Fujian Province, the PRC with carrying value of HK$70,487,000 as at 31 December 2001 up to the year 2050.

At 31 December 2001, certain of the Group's leasehold land and buildings and investment properties with carrying values of approximately HK$108,320,000 and HK$980,000 were pledged to secure general banking facilities granted to the Group as detailed in note 24 to the financial statements.

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2001, amounted to HK$1,065,000 (2000: Nil).

16. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 3 to the financial statements. The amounts of the goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group
	HK$'000
Cost:	
At beginning of year	–
Acquisition of subsidiaries	1,345
At 31 December 2001	1,345
Accumulated amortisation:	
At beginning of year	–
Amortisation provided during the year	90
At 31 December 2001	90
Net book value:	
At 31 December 2001	1,255
At 31 December 2000	–

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**125,261**	125,261
Due from subsidiaries	**53,205**	–
Due to a subsidiary	**–**	(1,999)
	178,466	123,262

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	Ordinary US$50,500	100	–	Investment holding
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
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

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
Fujian Kcare Giftoys Co., Ltd. 福建奇嘉禮品玩具有限公司 (Note (d))	PRC	RMB10,000,000	–	100	Trading of decorative gift items and toys
Newgary Development Limited ("Newgary")	Hong Kong	Ordinary HK$2 Non-voting deferred (Note (a)) HK$10,000	–	100	Property holding
Fuzhou Zheng Defu Toys Co., Ltd. 福州正德福玩具有限公司 ("Zheng Defu") (Note (e))	PRC	US$850,000	–	100	Manufacture and trading of toys
Top Point Investments Limited	BVI	Ordinary US$100	–	100	Investment in securities in Hong Kong
Kiu Hung Investments Limited	Hong Kong	Ordinary HK$2	–	100	Property holding

17. INTERESTS IN SUBSIDIARIES (continued)

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.

(d) Fujian Kcare Giftoys Co., Ltd. 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 28 May 2001. Its registered capital is RMB10,000,000 which has been wholly paid up by the Group.

(e) Pursuant to an acquisition agreement dated 31 March 2001 entered into between the Group and an independent third party (the "Vendor"), the Group acquired the entire equity interest in Zheng Defu for a consideration of approximately HK$6,542,000. Zheng Defu was 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 28 October 1992. Its registered capital is US$850,000 which was wholly paid up by the Vendor.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**7,813**	11,185
Work in progress	**2,593**	3,954
Finished goods	**4,252**	592
	14,658	15,731

No inventories were stated at net realisable value as at 31 December 2001 (2000: Nil).

19. TRADE AND BILLS 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 one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current to 30 days	**10,099**	11,302
31 days to 90 days	**6,891**	6,522
91 days to 180 days	**688**	593
Over 180 days	**1,695**	–
	19,373	18,417

20. SHORT TERM INVESTMENTS

	2001	2000
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**9,379**	–

The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK$13,190,000.

21. 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 2001 was approximately HK$30,981,000 (2000: HK$8,509,000) cash and bank balances which were denominated in Renminbi ("RMB") and deposited with banks in the PRC. 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.

22. TRADE AND BILLS PAYABLES

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current to 30 days	**2,823**	1,161
31 days to 90 days	**3,025**	1,048
91 days to 180 days	**911**	714
181 days to 360 days	**743**	23
Over 360 days	**335**	–
	7,837	2,946

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
		2001	2000
	Notes	***HK$'000***	*HK$'000*
Current portion of bank loans, secured		**26,775**	17,615
Trust receipt loans, secured	*24*	**417**	681
		27,192	18,296
Current portion of finance lease payables	*25*	**257**	–
		27,449	18,296

24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank loans, secured	**30,604**	35,467
Trust receipt loans, secured *(note 23)*	**417**	681
	31,021	36,148
Bank loans repayable:		
Within one year or on demand *(note 23)*	**26,775**	17,615
In the second year	**389**	14,653
In the third to fifth years, inclusive	**1,267**	3,199
Beyond five years	**2,173**	–
Trust receipt loans repayable within one year or on demand *(note 23)*	**417**	681
	31,021	36,148
Portion classified as current liabilities *(note 23)*	**(27,192)**	(18,296)
Non-current portion	**3,829**	17,852

At 31 December 2001, the banking facilities of the Group were secured by:

(i) first legal charges on certain of the Group's leasehold land and buildings and investment properties with carrying values of approximately HK$108,320,000 and HK$980,000, respectively (note 15);

(ii) corporate guarantees executed by the Company to the extent of HK$108 million; and

(iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK$93 million.

25. FINANCE LEASE PAYABLES

The Group leased certain of its motor vehicles during the year. These leases are classified as finance leases and have remaining lease terms of five years.

At 31 December 2001, the total future minimum lease payments under the finance leases and their present values, were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**270**	–	**257**	–
In the second year	**270**	–	**234**	–
In the third to fifth years, inclusive	**541**	–	**393**	–
Total minimum finance lease payments	**1,081**	–	**884**	–
Future finance charges	**(197)**	–		
Total net finance lease payables	**884**	–		
Portion classified as current liabilities (note 23)	**(257)**	–		
Long term portion	**627**	–		

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above.

26. DEFERRED TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
At beginning of year	**1,026**	1,095
Credit for the year *(note 11)*	**(472)**	(69)
At 31 December	**554**	1,026

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 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.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

27. SHARE CAPITAL

Shares

	2001	2000
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2000: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
440,287,200 (2000: 1,000,000) ordinary shares of HK$0.10 each	**44,029**	100

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 31 December 2001:

(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 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 to the financial statements, 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 then combined net assets of Legend Wealth at that date over the nominal value of the Company's share issued in exchange therefor, amounting to HK$125,161,000, was credited to the Company's capital reserve as detailed in note 28 to the financial statements.

27. SHARE CAPITAL (continued)

Shares (continued)

(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.

(vi) 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.

(vii) Pursuant to a resolution relating to the bonus issue (the "Bonus Issue") passed by the board of directors on 28 August 2001, an aggregate of 220,000,000 shares of HK$0.10 each were issued as fully paid by capitalising HK$20,795,000 and HK$1,205,000 from the amount standing to the credit of the share premium account and the retained profits, respectively, of the Company on the basis of one bonus share for every one ordinary share held by the shareholders whose names appear on the register of members of the Company on 27 September 2001. The bonus shares from the Bonus Issue rank pari passu in all respects with the issued shares of the Company except that they were not entitled to the interim dividend for the six months ended 30 June 2001.

(viii) During the year, warrants were exercised for 287,200 ordinary shares of HK$0.10 each in the Company at a price of HK$0.70 per share and a total consideration of approximately HK$201,000, before issue expenses, had been received by the Company.

27. SHARE CAPITAL (continued)

Shares (continued)

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

	Notes	**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	*(ii)*	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	*(ii)*	99	–
Shares issued as a consideration for the acquisition of the entire issued share capital of Legend Wealth	*(iv)*	999,900	100
Share capital at 31 December 2000		1,000,000	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	*(v)*	164,000,000	–
Pro forma issued share capital as at 31 December 2000 and 1 January 2001		165,000,000	100
New issue and placing of shares to the public	*(vi)*	55,000,000	5,500
Capitalisation of the share premium account	*(v)*	–	16,400
One-for-one bonus issue	*(vii)*	220,000,000	22,000
Shares issued on exercise of warrants	*(viii)*	287,200	29
Share capital at 31 December 2001		440,287,200	44,029

27. SHARE CAPITAL (continued)

Warrants

Pursuant to a resolution passed by the board of directors on 28 August 2001, a bonus issue of warrant was made on the basis of one warrant for every five ordinary shares held by the shareholders of the Company whose names appear on the register of member of the Company (except those shareholders with registered addresses outside Hong Kong) on 27 September 2001, taking into account the bonus shares allotted and issued, resulting in 88,000,000 warrants being issued. The warrant entitles the holders thereof to subscribe for new ordinary shares in the Company of HK$0.10 each at an initial subscription price of HK$0.70 per share, subject to adjustments, at any time up to 7 October 2003. During the year, 287,200 warrants were exercised and resulted in the issue of 287,200 new ordinary shares in the Company at a subscription price of HK$0.70 per share for a total consideration of approximately HK$201,000. The excess of the cash consideration received over the nominal value of the shares issued, amounting to HK$172,000, had been credited to the share premium account.

As at 31 December 2001, the Company had 87,712,800 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 87,712,800 additional ordinary shares of the Company at a total consideration, before issue expenses, of approximately HK$61,399,000.

Share options

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Listing Rules in respect of share option schemes, which came into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interest of the Company to terminate the existing share option scheme of the Company and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's forthcoming shareholders' meeting for the approval of the said adoption of the new share option scheme and termination of the Company's existing share option scheme.

As at 31 December 2001 and as at the date of approval of these financial statements, no options had been granted or outstanding under the share option scheme operated by the Group. Further details of the Group's share option scheme are also set out in the Report of the Directors on pages 14 to 15.

28. RESERVES

Group

	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Fixed assets revaluation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note (a))	*(note (b))*					
At 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
Special dividend	–	–	–	–	–	–	(28,000)	(28,000)
At 31 December 2000 and 1 January 2001	–	–	702	(2,857)	378	73,960	53,761	125,944
Issue of shares	49,672	–	–	–	–	–	–	49,672
Share issue expenses	(12,305)	–	–	–	–	–	–	(12,305)
Transfer from retained profits to reserves	–	749	–	–	–	–	(749)	–
Capitalisation of share premium on initial public offering *(note 27(v))*	(16,400)	–	–	–	–	–	–	(16,400)
Bonus issue of shares *(note 27(vii))*	(20,795)	–	–	–	–	–	(1,205)	(22,000)
Revaluation surplus	–	–	–	–	–	2,779	–	2,779
Net profit for the year	–	–	–	–	–	–	13,458	13,458
Interim 2001 dividend	–	–	–	–	–	–	(5,500)	(5,500)
Proposed final 2001 dividend	–	–	–	–	–	–	(8,811)	(8,811)
At 31 December 2001	172	749	702	(2,857)	378	76,739	50,954	126,837

28. RESERVES (continued)

Company

	Share premium HK$'000	Capital Reserve HK$'000 (note (b))	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Net loss for the period	–	–	(122)	(122)
Arising on acquisition of Legend Wealth *(note 27(iv))*	–	125,161	–	125,161
At 31 December 2000 and 1 January 2001	–	125,161	(122)	125,039
Issue of shares	49,672	–	–	49,672
Share issue expenses	(12,305)	–	–	(12,305)
Capitalisation of share premium on initial public offering *(note 27(v))*	(16,400)	–	–	(16,400)
Bonus issue of shares *(note 27(vii))*	(20,795)	–	(1,205)	(22,000)
Net profit for the year	–	–	15,689	15,689
Interim 2001 dividend	–	–	(5,500)	(5,500)
Proposed final 2001 dividend	–	–	(8,811)	(8,811)
At 31 December 2001	172	125,161	51	125,384

Notes:

(a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

(b) 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 Group reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Profit from operating activities	**19,808**	52,965
Interest income	**(865)**	(2,109)
Depreciation	**7,760**	4,406
Inventory provision	**3,745**	–
Bad debt written off	**100**	–
Goodwill amortisation	**90**	–
Unrealised gain on short term investment	**(1,238)**	–
Write-off of fixed assets	**1,429**	–
Increase in inventories	**(1,050)**	(293)
Decrease/(increase) in trade and bills receivables	**313**	(9,872)
Decrease/(increase) in prepayments, deposits and other receivables	**1,089**	(2,052)
Increase in trade and bills payables	**3,893**	582
Increase in other payables and accruals	**6,460**	2,845
Net cash inflow from operating activities	**41,534**	46,472

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

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

	Share capital and share premium	Bank loans	Finance lease obligations
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2000	100	52,624	4
Net cash outflow from financing	–	(17,595)	(4)
Increase in bank loans with original maturity of less than three months	–	438	–
At 31 December 2000 and 1 January 2001	100	35,467	–
Capitalisation of retained profit for Bonus Issue *(note 27(vii))*	1,205	–	–
Arising on acquisition of a subsidiary	–	4,400	–
Decrease in bank loans with original maturity of less than three months	–	(1,327)	–
Inception of finance lease contracts	–	–	1,138
Net cash inflow/(outflow) from financing	42,896	(7,936)	(254)
At 31 December 2001	44,201	30,604	884

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$1,138,000.

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

(d) Acquisition of subsidiaries

	2001	2000
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	**11,544**	–
Cash and bank balances	**997**	–
Inventories	**1,622**	–
Trade receivables	**1,369**	–
Prepayments, deposits and other receivables	**197**	–
Trade payables	**(998)**	–
Other payables and accruals	**(170)**	–
Deferred tax	**(19)**	–
Bank loans	**(4,400)**	–
	10,142	–
Goodwill on acquisition	**1,345**	–
	11,487	–
Satisfied by:		
Cash	**11,487**	–

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

	2001	2000
	HK$'000	*HK$'000*
Cash consideration	**(11,487)**	–
Cash and bank balances acquired	**997**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(10,490)**	–

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

(d) Acquisition of subsidiaries (continued)

During the year, the Group acquired the entire equity interest in Newgary from certain executive directors, a beneficial shareholder of the Company and a senior management of the Group for a total considerations of HK$4,945,000 which had been fully settled in cash (note 35(b)).

In addition, the Group acquired the entire equity interest in Zheng Defu with a cash consideration of HK$6,542,000 from an independent third party during the year. The consideration had been fully settled in cash (note 17(e)).

The subsidiaries acquired during the year contributed HK$6,877,000 to the Group's turnover and HK$1,116,000 to the net profit from ordinary activities attributable to shareholders.

The subsidiaries acquired contributed HK$392,000 to the Group's net operating cash outflows, utilised HK$17,278,000 in respect of the cash flows for investing activities, utilised HK$198,000 in respect of the cash flows for financing activities and utilised HK$133,000 in respect of cash flows for net returns on investments and servicing of finance, but had no significant impact in respect of the Group's cash flows for tax.

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2001	2000
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**108,400**	–

As at 31 December 2001, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$4,619,000 (2000: Nil).

31. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by assets of the Group, are included in notes 15 and 24 to the financial statements.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for a term of one year. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**302**	25

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between one and two years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
		(Restated)
Within one year	**398**	720
In the second to fifth years, inclusive	**391**	–
	789	720

In addition, pursuant to various agreements entered into between the Group and the LAB, an annual fee of HK$321,000 is payable to the LAB in respect of the Group's land and buildings in Putian City, Fujian Province, the PRC, with a carrying value of HK$70,487,000 as at 31 December 2001 up to the year 2050 (note 15).

32. OPERATING LEASE ARRANGEMENTS (continued)

SSAP 14 (Revised), which was adopted during the year, requires lessor under operating leases to disclose the total future minimum lease receivables under non-cancellable operating leases, as detailed in (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lease in note (b) above, have been restated to accord with the current year's presentation.

33. COMMITMENTS

At the balance sheet date, neither the Group, nor the Company had any significant capital commitments.

34. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, 280,000 warrants were exercised and resulted in the issue of 280,000 new ordinary shares in the Company at a subscription price of HK$0.70 per share for a total consideration of HK$196,000.

35. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

Nature of transaction	*Notes*	**2001**	2000
		HK$'000	*HK$'000*
Rental expenses paid to Newgary	*(i)*	**300**	660
Interest income on an amount due from a director	*(ii)*	–	2,008

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 prevailing market conditions.

Newgary was subsequently acquired by the Group during the year and become a wholly-owned subsidiary of the Company. Further details are set out in note (b) below.

(ii) The interest received from an executive director of the Company was charged at the prevailing lending rates offered by banks to the Group. The amount due from a director was fully settled during the year ended 31 December 2000.

35. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(b) On 15 June 2001, the Group entered into an agreement with Mr. Hui Kee Fung, Mr. Hui Ki Yau, Ms. Hui Hung Tan, Teresa, Ms. Hui So Hing, and Hui's K. K. Foundation Limited (a beneficial shareholder of the Company) (the "Original Shareholders"), the then shareholders of Newgary, in relation to the subscription of two new ordinary shares in Newgary by the Group and the conversion of the then entire issued share capital of Newgary into 10,000 non-voting deferred shares. Mr. Hui Kee Fung, Mr. Hui Ki Yau and Ms. Hui Hung Tan, Teresa, are directors and beneficial shareholders of the Company. Ms. Hui So Hing is a senior management of the Group and a beneficial shareholder of the Company. In consideration thereof, an aggregate amount of HK$4,945,000 had been paid by the Group to the Original Shareholders. The consideration was determined by reference to an independent valuation made by Castores on the properties held by Newgary. Upon completion, Newgary became a wholly-owned subsidiary of the Company. The principal activity of Newgary is property holding. Further details of the transactions are set out in the Company's announcement dated 18 June 2001.

(c) During the year, certain of the credit facilities of the Group were secured by legal charges on certain leasehold land and buildings belonging to related companies, of which Mr. Hui Kee Fung, Mr. Hui Ki Yau, Ms. Hui Hung Tan, Teresa, Ms. Hui So Hing and Hui's K.K. Foundation Limited had beneficial interests, and personal guarantees executed by certain directors of the Company. The relevant legal charges and personal guarantees had been released before 31 December 2001.

36. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs 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 to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2002.