

RESULTS

The board of directors (the "Board") of Kiu Hung International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002.

For the six months ended 30 June 2002, the Group recorded a net profit attributable to shareholders of HK\$9,580,000.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK 0.4 cent per share of the Company to the shareholders whose names appear on the register of members of the Company (the "Register") on Tuesday, 17 September 2002. This recommendation has been incorporated in the financial statements.

The Register will be closed from Thursday, 12 September 2002 to Tuesday, 17 September 2002, both days inclusive, during which period no transfers of shares of the Company can be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates should be lodged with the Company's branch registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, for registration not later than 4:00 p.m. on Wednesday, 11 September 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER	3	43,242	46,963
Cost of sales		(23,994)	(23,171)
Gross profit		19,248	23,792
Other revenue and gains	3	6,953	1,421
Selling and distribution costs		(4,335)	(5,385)
Administrative expenses		(8,396)	(8,050)
Other operating expenses		(465)	(586)
PROFIT FROM OPERATING ACTIVITIES	4	13,005	11,192
Finance costs	5	(1,315)	(1,335)
Share of loss of an associate		(61)	–
PROFIT BEFORE TAX		11,629	9,857
Tax	6	(2,049)	(1,508)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		9,580	8,349
DIVIDENDS	7	8,815	5,500
EARNINGS PER SHARE	8		
– Basic		HK0.43cent	HK0.39cent
– Diluted		HK0.41cent	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets	9	150,199	153,249
Goodwill		1,121	1,255
Interest in an associate	10	1,101	–
		152,421	154,504
CURRENT ASSETS			
Inventories		15,718	14,658
Trade and bills receivables	11	14,602	19,373
Prepayments, deposits and other receivables		4,528	2,597
Short term investments		15,478	9,379
Cash and cash equivalent		43,097	42,699
		93,423	88,706
CURRENT LIABILITIES			
Trade and bills payable	12	7,887	7,837
Tax payable		13,229	11,308
Other payables and accruals		11,902	11,929
Interest-bearing bank and other borrowings		27,325	27,449
		60,343	58,523
NET CURRENT ASSETS		33,080	30,183
TOTAL ASSETS LESS CURRENT LIABILITIES		185,501	184,687

		As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		3,676	3,829
Finance lease payables		517	627
Deferred tax		554	554
		4,747	5,010
		180,754	179,677
CAPITAL AND RESERVES			
Issued capital	13	44,073	44,029
Share premium	14	436	172
Reserves		127,430	126,665
Dividends		8,815	8,811
		180,754	179,677

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	11,475	380
Net cash outflow from investing activities	(871)	(23,421)
Net cash inflow /(outflow) from financing activities	(10,206)	31,835
	<hr/>	<hr/>
Increase in cash and cash equivalents	398	8,794
Cash and cash equivalents at beginning of period	42,699	25,710
	<hr/>	<hr/>
Cash and cash equivalents at end of period	43,097	34,504
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF		
CASH AND CASH EQUIVALENTS		
Cash and bank balances	43,097	34,504
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	As at 1 January 2001 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2001 (Unaudited) HK\$'000
Share capital	100	21,900	22,000
Share premium	–	20,795	20,795
Statutory surplus reserve	–	–	–
Capital reserve	702	–	702
Exchange fluctuation reserve	(2,857)	–	(2,857)
Investment Property revaluation reserve	378	–	378
Fixed assets revaluation reserve	73,960	–	73,960
Retained profits	53,761	2,849	56,610
Dividends	–	5,500	5,500
	<u>126,044</u>	<u>51,044</u>	<u>177,088</u>
	As at 1 January 2002 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2002 (Unaudited) HK\$'000
Share capital	44,029	44	44,073
Share premium	172	264	436
Statutory surplus reserve	749	89	838
Capital reserve	702	–	702
Exchange fluctuation reserve	(2,857)	–	(2,857)
Investment Property revaluation reserve	378	–	378
Fixed assets revaluation reserve	76,739	–	76,739
Retained profits	50,954	676	51,630
Dividends	8,811	4	8,815
	<u>179,677</u>	<u>1,077</u>	<u>180,754</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 2.125 "Interim Financial Reporting". The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2001 except for the adoption of the new SSAP 15 (Revised) "Cash Flow Statements" and SSAP 34 "Employee Benefits", the impact of which is summarised as follows:

- (a) SSAP 15 (Revised) "Cash Flow Statements" prescribes the provision of information about the historical changes in cash and cash equivalents. The condensed consolidated cash flow statement for the current interim period and the comparative figures are presented in accordance with the revised SSAP.
- (b) SSAP 34 "Employee Benefits" prescribes the accounting and disclosure for employee benefits. This SSAP has no major impact on these financial statements.

This unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company and were approved by the board of directors on 21 August 2002.

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue and profit for the Group's business segments.

	Toys		Decorative gift items		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2002	2001	2002	2001	2002	2001
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers and total revenue	26,324	27,019	16,918	19,944	43,242	46,963
Segment results	6,168	5,560	1,847	5,131	8,015	10,691
Interest, rental and unallocated gains					6,953	1,421
Unallocated expenses					(1,963)	(920)
Profit from operating activities					13,005	11,192
Finance costs					(1,315)	(1,335)
Share of loss of an associate					(61)	–
Profit before tax					11,629	9,857
Tax					(2,049)	(1,508)
Net profit from ordinary activities attributable to shareholders					9,580	8,349

(b) Geographical segments

The following tables present revenue and result for the Group's geographical segments.

	The PRC (including Hong Kong)		North America		European Union		Others		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	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	<u>24,462</u>	<u>21,017</u>	<u>10,998</u>	<u>19,453</u>	<u>5,817</u>	<u>5,065</u>	<u>1,965</u>	<u>1,428</u>	<u>43,242</u>	<u>46,963</u>
Segment results	<u>10,618</u>	<u>7,825</u>	<u>(1,666)</u>	<u>2,012</u>	<u>(708)</u>	<u>676</u>	<u>(229)</u>	<u>178</u>	<u>8,015</u>	<u>10,691</u>

3. 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:

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Sale of goods	43,242	46,963
Other revenue and gains		
Bank interest income	83	486
Gross rental income	13	13
Dividend income	99	–
Others	508	168
	703	667
Gains		
Exchange gains	151	47
Unrealised gain on short term investments	6,099	707
	6,250	754
	6,953	1,421

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	3,591	3,257
Goodwill amortisation for the period*	134	–
Write off of fixed assets	–	445
	<u> </u>	<u> </u>

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

5. FINANCE COSTS

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,290	1,335
Interest on finance leases	25	–
	<u> </u>	<u> </u>
	1,315	1,335
	<u> </u>	<u> </u>

6. TAX

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for the period:		
Hong Kong	28	57
Elsewhere	2,021	1,451
	<u>2,049</u>	<u>1,508</u>
Tax charge for the period	<u>2,049</u>	<u>1,508</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong for the period. 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.

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"), Fuzhou Zheng Defu Toys Co., Ltd. (福州正德福玩具有限公司) ("Zheng Defu") and Fujian Kcare Gifttoys Co., Ltd. (福建奇嘉禮品玩具有限公司) ("Fujian Kcare"), 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 six months ended 30 June 2001 and 2002, PRC corporate income tax has been provided at the reduced rate of 12% on the estimated assessable profits generated by KH Light, QX Toys and Zheng Defu. 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 period.

7. DIVIDENDS

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend of HK 0.4 cent (2001: HK 0.25 cent) per share	<u>8,815</u>	<u>5,500</u>

The amount of interim dividend is calculated based on 2,203,636,000 (2001: 2,200,000,000) shares in issue as at the date of approval of these financial statements.

The prior period's number of shares in issue for the calculation of interim dividend has been adjusted for the one-for-one bonus issue of shares in 2001 and the one-to-five subdivision of shares in 2002.

8. 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\$9,580,000 (2001: HK\$8,349,000) and the weighted average of 2,202,640,972 (2001: 2,148,342,540) ordinary shares in issue during the period.

The prior period's 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 in 2001 and the one-to-five subdivision of shares in 2002.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$9,580,000 and weighted average number of 2,353,877,271 ordinary shares in issue. The weighted average number of ordinary shares used in the calculation of diluted earning per share is the 2,202,640,972 ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 151,236,299 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period.

A diluted earnings per share amount for the period ended 30 June 2001 has not been disclosed as no diluting events existed during that period.

9. FIXED ASSETS

The changes in the net book value of fixed assets for the six months ended 30 June 2002 are analysed as follows:

	HK\$'000
At 1 January 2002	153,249
Additions	541
Depreciation	(3,591)
	<hr/>
At 30 June 2002	<u>150,199</u>

10. INTEREST IN AN ASSOCIATE

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Share of net assets	(61)	–
Due from an associate	1,162	–
	<hr/>	<hr/>
	<u>1,101</u>	<u>–</u>

The amount due from an associate is unsecured, interest-free and have no fixed terms of repayment.

11. TRADE AND BILLS RECEIVABLE

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 1 month, extending up to 3 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 trade and bills receivables as at the balance sheet date, base on invoice date, and net of provision, is as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current to 30 days	11,472	10,099
31 days to 90 days	1,946	6,891
91 days to 180 days	336	688
Over 180 days	848	1,695
	14,602	19,373

12. TRADE AND BILLS PAYABLES

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

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current to 30 days	4,160	2,823
31 days to 90 days	2,820	3,025
91 days to 180 days	594	911
181 days to 360 days	300	743
Over 360 days	13	335
	7,887	7,837

13. SHARE CAPITAL

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Authorised:		
5,000,000,000 (31 December 2001: 1,000,000,000) ordinary shares of HK\$0.02 (31 December 2001: HK\$0.10) each	100,000	100,000

	Number of ordinary shares of HK\$0.10 each	Number of ordinary shares of HK\$0.02 each	Par value HK\$'000
Issued and fully paid:			
At 1 January 2002	440,287,200	–	44,029
Shares issued on exercise of warrants	440,000	–	44
Subdivision of existing shares of HK\$0.10 each into 5 shares of HK\$0.02 each	<u>(440,727,200)</u>	<u>2,203,636,000</u>	<u> </u>
At 30 June 2002	<u> </u> <u>–</u>	<u> </u> <u>2,203,636,000</u>	<u> </u> <u>44,073</u>

Pursuant to an ordinary resolution passed by the shareholders of the Company on 28 May 2002, each of the issued and unissued share of the Company of HK\$0.10 each is subdivided into five shares of HK\$0.02 each. Accordingly, the numbers of authorised and issued shares of the Company have been adjusted to reflect the effect of such subdivision.

Warrants

As at 30 June 2002, the Company had 436,364,000 warrants outstanding. The warrant entitles the holders thereof to subscribe for new ordinary shares in the Company of HK\$0.02 each at a subscription price of HK\$0.14 (adjusted for the effect of one-to-five share subdivision during the period) per share at any time up to 7 October 2003. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 436,364,000 additional ordinary shares of the Company at a total consideration, before issue expenses, of approximately HK\$61,091,000.

Share options

The Company adopted a share option scheme (the "Original Scheme") which became effective on 22 January 2001, under which the directors may, at their discretion, invite any full-time employees of the Company or any of its subsidiaries, including any directors (other than non-executive directors), to take up options to subscribe for shares (the "Shares") in the Company. The subscription price is determined by the directors, but may not be less than the higher of the nominal value of the Company's shares or 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option. A nominal cash consideration of HK\$1.00 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme is 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Scheme or any other share option scheme.

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

On 23 August 2001, the Stock Exchange has announced amendments to Chapter 17 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of share option schemes, which has come into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Company has terminated the Original Scheme and adopted a new share option scheme (the "New Scheme"). An ordinary resolution was passed at the Company's annual general meeting held on 28 May 2002 for the adoption of the New Scheme and termination of the Original Scheme.

Pursuant to the New Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for the

Shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at 28 May 2002. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the New Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the New Scheme under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

During the period ended 30 June 2002, no options had been granted or outstanding under the Original Scheme operated by the Group.

No options had been granted to the participants (including the employees of the Group, the suppliers of goods or services and all other participants under the New Scheme) pursuant to the New Scheme for the period from the date of adoption of the New Scheme (i.e. 28 May 2002) to 30 June 2002. Accordingly, no options had been granted to any participant under the New Scheme in excess of the individual limit set out in the

Listing Rules of the Stock Exchange (i.e. 1% of the total issued share capital of the Company in any 12-month period).

14. SHARE PREMIUM

	(Unaudited) HK\$'000
At 1 January 2002	172
Arising from issue of shares on exercise of warrants	264
	<hr/>
At 30 June 2002	436
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15. RELATED PARTY TRANSACTIONS

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

Nature of transaction	Notes	Six months ended	
		2002	30 June
		(Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Rental expense paid to Newgary Development Limited ("Newgary")	(i)	–	300
Sales of goods to an associate	(ii)	650	–
		<hr/> <hr/>	<hr/> <hr/>

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 acquired by the Group in 2001 and become a wholly-owned subsidiary of the Company. Further details are set out in note (c) below.

- (ii) The sales of goods by the Group to an associate were made based on normal market prices charged to third party. The balance with the associate is unsecured, interest-free and has no fixed terms of repayment.
- (b) During the period, the Group advanced HK\$512,000 to an associate. The balance with the associate is unsecured, interest-free and has no fixed terms of repayment.
- (c) 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 2 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 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.
- (d) During the period ended 30 June 2001, 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. The above legal charges have been released as at 31 December 2001.

16. COMPARATIVE AMOUNTS

As further explained in note 1 to the condensed consolidated interim financial statements, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed interim financial statements were approved by the board of directors on 21 August 2002.

BUSINESS REVIEW

For the six months ended 30 June 2002 (the "Period"), the Group's turnover and net profit attributable to shareholders were approximately HK\$43 million and HK\$9.6 million, respectively, representing a decrease of approximately 8% and an increase of approximately 15%, respectively, over the corresponding period in 2001. Basic earnings per share for the Period stood at HK0.43 cent (2001: HK0.39 cent). Revenue from toys and decorative gift items has declined by approximately 3% and 15%, respectively, over the previous period. The decrease in turnover was a result of the worldwide economic recession led by the United States economy, which resulted in price reduction pressure from the customers. The Group will adopt a series of measures to improve its profitability and performance.

The Group's sales 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 67%, 68% and 62%, 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.

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"). The Group has cash and cash equivalents of approximately HK\$43 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 and other borrowings are made in Hong Kong dollars and Renminbi, approximately 81% of such borrowings bear interest at fixed lending rate. At 30 June 2002, the Group's bank and other borrowings amounted to approximately HK\$31 million, out of

which approximately 88% is repayable within one year. The gearing ratio of the Group calculated as a ratio of total bank and other borrowings to total assets is approximately 13% as at 30 June 2002. Net current assets at 30 June 2002 was approximately HK\$33 million and the current ratio was maintained at a healthy level of approximately 155%. As the Group's operations are all located in Hong Kong and the PRC, no use of financial instruments for hedging purpose is considered necessary.

At 30 June 2002, 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\$106,566,000, respectively, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2002, the Group did not have any contingent liabilities (2001: Nil).

At 30 June 2002, the Group has a total of 1,517 employees of which 26 are based in Hong Kong and 1,491 are based in the PRC. The Group always maintains good working relations with its employees and has committed itself to its staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus is 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.

Moving forward, the Group will continue to invest in research and product development and to expand its product development department 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 proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 22 January 2001, after deduction of related expenses, amounted to approximately HK\$43 million. As of 30 June 2002, the proceeds have been applied as follows:

- approximately HK\$4 million was used for developing new models and new products;

- approximately HK\$5 million was used for the acquisition of new machinery and auxiliary equipment;
- approximately HK\$10 million was used for establishing retail outlets and developing distribution channels in major cities in the People's Republic of China;
- approximately HK\$18 million was used as general working capital of the Group.

The Group has placed the unused balance of the net proceeds with licensed banks in Hong Kong and the PRC. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and the shareholders.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 30 June 2002, the interests of the directors or their associates in the share capital of the Company or its associated corporations as recorded in the Register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were set out as follows:

Name of director	Number of ordinary shares held and nature of interest			
	Personal Interest	Family interest	Corporate interest	Other interest
Mr. Hui Kee Fung	–	–	1,567,500,000	–
Mr. Hui Ki Yau	–	–	–	–
Ms. Hui Hung Tan, Teresa	–	–	–	–

Name of director	Number of warrants held and nature of interest			
	Personal Interest	Family interest	Corporate interest	Other interest
Mr. Hui Kee Fung	–	–	313,500,000	–
Mr. Hui Ki Yau	–	–	–	–
Ms. Hui Hung Tan, Teresa	–	–	–	–

Note: The 1,567,500,000 shares and 313,500,000 warrants 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 equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Apart from disclosed under the headings “Share options” in note 13 of the unaudited condensed consolidated interim financial statements, at no time during the six months ended 30 June 2002 (the “Period”) were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at the date of this report, no person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance, other than the shares held by Legend Win as disclosed in the section headed “Directors’ interests in shares and warrants” above.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the Period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Mr. Sy Chin Mong, Stephen and Dr. Lin Al Yue, the independent non-executive directors of the Company. The Group's unaudited interim report for the Period has been reviewed by the Audit Committee, who are of the opinion that such report complies with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

By Order of the Board

HUI Kee Fung

Chairman

Hong Kong

21 August 2002