

Notes to the Financial Statements

Year ended 31 December 2002

1. GENERAL INFORMATION

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of a wide range of toys and decorative gift items. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

The directors consider the ultimate holding company to be Legend Win Profits Limited, a company incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 18 to 68 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, investment properties and short term investments.

Adoption of revised/new SSAPs

In the current year, the Group has adopted, for the first time, the following SSAPs.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11(Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

Adoption of these revised or new SSAPs has led to a number of changes in the Group's accounting policies. In addition, the revised or new SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. The adoption of these revised or new SSAPs has resulted in the following changes to the Group's accounting policies.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

SSAP 1 (Revised) – Presentation of financial statements

In adopting SSAP 1 (Revised) the Group is required to present a statement of changes in equity instead of a statement of recognised gains and losses. Comparative amounts have been restated to achieve a consistent presentation.

SSAP 11 (Revised) – Foreign currency translation

SSAP 11 is revised to eliminate the option to translate the income statement of a foreign enterprise at the closing rate when preparing consolidated financial statements and the income statement of foreign enterprise has to be translated at an average rate for the period. This is a change in accounting policy, however, the translation of the income statement of foreign enterprise in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

SSAP 15 (Revised) – Cash flow statements

In adopting SSAP 15 (Revised) the Group requires a cash flow statement to report cash flows during the period classified by operating, investing and financing activities only. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, demand deposits, short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Comparative amounts have been restated to achieve a consistent presentation.

SSAP 34 – Employee benefits

Employee leave entitlements

In adopting SSAP 34, employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

SSAP 34 – Employee benefits (Continued)

The adoption of SSAP 34 has not had any material impact on the financial statements and no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

The financial statements also include the Group's share of post-acquisition results and reserves of its associates.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group's interest in associates is stated at its share of net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

(e) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost or valuation of property, plant and equipment less their residual value, if any, over their estimated useful lives, using the straight line method, at the following rates per annum:

	Residual value	
Leasehold land	–	Over the terms of the leases
Buildings	10%	2%-5%
Leasehold improvements	10%	10%
Plant and machinery	10%	10%
Moulds	10%	10-20%
Furniture, fixtures and equipment	10%	10-20%
Motor vehicles	10%	20%

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

(ii) *Measurement bases*

Property, plant and equipment other than investment properties are stated at cost or valuation less accumulated depreciation and amortisation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

Any surplus arising on revaluation of property, plant and equipment other than investment properties is credited to assets revaluation reserve. A decrease in net carrying amount arising on revaluation is charged to the income statement to the extent that this exceeds the surplus, if any, held in assets revaluation reserve relating to the previous revaluation of the same item of assets. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits.

(f) 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.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

Investment properties held on leases with unexpired periods longer than 20 years are not depreciated and are valued annually by professionally qualified executives of the Group and at least every three years by external valuers. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment property revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. A revaluation increase is recognised as income to the extent that it reverses revaluation decrease previously recognised as an expense.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining periods of the leases.

Upon disposal, the revaluation surpluses relating to the investment property disposed of are released from the investment property revaluation reserve and charged to the income statement.

(g) Goodwill

Goodwill arising on acquisition of subsidiaries or associates 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 for a period of not exceeding five years.

On disposal of subsidiaries or associates, 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 and the relevant reserves, as appropriate.

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.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, computed using the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less further costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) 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.

Gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(k) Leases

(i) Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets to the Group. Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the leases. The corresponding liabilities, net of finance charges, are recorded as finance lease payables. Finance charges implicit in the lease payments are charged to the income statement over the periods of the leases so as to produce a constant periodic rate of interest on the remaining balance of the payables for each accounting period.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged or credited to the income statement on a straight line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Research and development costs

All research costs are charged to the income statement 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 expenses 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.

(m) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) *Retirement benefits scheme*

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 became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

(ii) Retirement benefits scheme (Continued)

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 18%-19% (2001: 19%) 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 income statement as they become payable in accordance with the rules of the central pension scheme.

(n) Foreign currencies

Transaction in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the income statement.

On consolidation, the balance sheets of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Exchange differences arising are dealt with as movement in exchange fluctuation reserve.

Notes to the Financial Statements

Year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Deferred tax/Future tax benefits

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

(q) 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.

(r) Recognition of revenue

Revenue from the sale of goods is recognised 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.

Interest income is recognised on a time proportion basis.

Dividend income is recognised when the right as a shareholder to receive payment is established.

Notes to the Financial Statements

Year ended 31 December 2002

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments 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.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Summary details of business segments are as follows:

- (i) the toys segment manufacturers and trades traditional toys, fashionable toys such as cartoon character products, electronic stuffed toys, educational toys and model kits; and
- (ii) the decorative gift items segment manufacturers and trades water globes, snow domes, figurines and functional household products such as stocking hangers, pins, magnets, pencil toppers, 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. Assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers between segments.

Notes to the Financial Statements

Year ended 31 December 2002

3. SEGMENT INFORMATION (Continued)

(a) Business segments

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

	Toys		Decorative gift items		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	60,380	74,705	39,963	48,103	100,343	122,808
Segment results	9,484	14,567	5,351	5,452	14,835	20,019
Interest, rental income and unallocated gains					3,779	3,349
Unallocated expenses					(2,290)	(3,560)
Operating profit					16,324	19,808
Finance costs					(2,235)	(2,431)
Profit before taxation					14,089	17,377
Taxation					(2,411)	(3,919)
Minority interest					(4)	–
Profit attributable to shareholders					11,674	13,458

Notes to the Financial Statements

Year ended 31 December 2002

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Toys		Decorative gift items		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	108,808	118,892	89,126	83,964	197,934	202,856
Unallocated assets					38,332	40,354
Total assets					236,266	243,210
Segment liabilities	14,954	19,891	13,564	12,154	28,518	32,045
Unallocated liabilities					31,853	31,488
Total liabilities					60,371	63,533
Other segment information:						
Depreciation and amortisation	3,867	3,297	3,386	4,221	7,253	7,518
Unallocated amounts					1,032	332
					8,285	7,850
Other non-cash expenses	1,020	2,318	207	2,956	1,227	5,274
Unallocated amounts					664	–
					1,891	5,274
Capital expenditure	11,421	7,167	873	8,502	12,294	15,669
Unallocated amount					169	25,248
					12,463	40,917

Notes to the Financial Statements

Year ended 31 December 2002

3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

	PRC (including Hong Kong)		North America		European Union		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	38,955	50,238	42,870	49,943	15,273	17,304	3,245	5,323	100,343	122,808
Segment results	18,253	21,686	(2,444)	(1,033)	(812)	(382)	(162)	(252)	14,835	20,019
Other segment information:										
Segment assets	196,263	195,544	1,471	7,038	184	269	16	5	197,934	202,856
Unallocated assets									38,332	40,354
									236,266	243,210
Capital expenditure	12,463	15,669	-	-	-	-	-	-	12,463	15,669
Unallocated amount									-	25,248
									12,463	40,917

Notes to the Financial Statements

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4. TURNOVER AND OTHER REVENUE

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

An analysis of the Group's turnover and other revenue is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover – sale of goods	100,343	122,808
Other revenue		
Bank interest income	226	865
Gross rental income	410	25
Exchange gains, net	531	239
Proceeds from sale of moulds	1,002	262
Unrealised holding gain on short term investments	711	1,238
Others	899	720
	3,779	3,349
Total revenue	104,122	126,157

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5. OPERATING PROFIT

Operating profit is arrived at after charging:

	Group	
	2002 HK\$'000	2001 HK\$'000
Amortisation of goodwill (included in other operating expenses)	269	90
Auditors' remuneration	400	800
Bad debts written-off	221	100
Cost of inventories recognised as expense	57,641	68,635
Depreciation and amortisation:		
– owned property, plant and equipment	7,770	7,684
– leased property, plant and equipment	246	76
Deficits on revaluation		
– investment properties	257	–
– leasehold land and buildings	407	–
Write off of inventories	878	3,745
Operating lease charges on land and buildings	571	500
Research and development costs – current year expenditure	2,502	1,048
Staff costs (including retirement benefits schemes contributions and directors' remuneration)	13,312	20,671
Redundancy cost	103	–
Write off of property, plant and equipment	128	1,429

The cost of inventories recognised as expense includes approximately HK\$9,191,000 (2001: HK\$14,892,000) relating to staff costs and depreciation and amortisation on property, plant and equipment, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

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6. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and trust receipts loans wholly repayable within five years	2,182	2,415
Interest on finance leases	53	16
	2,235	2,431

7. TAXATION

The charge comprises:

	Group	
	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	61	233
Overseas taxes	2,580	4,052
Underprovision in prior year	–	106
Deferred tax (note 28)	(230)	(472)
	2,411	3,919

Hong Kong profits tax is provided at the rate of 16% (2001: 16%) on the estimated assessable profit of 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 of 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 the PRC enterprise income tax for the first two profitable years of operations, and thereafter, are eligible for a 50% relief from PRC enterprise income tax for the following three years under the Income Tax Law of the PRC. For the year ended 31 December 2002, PRC enterprise 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 enterprise income tax has been made for Fujian Kcare as the subsidiary did not derive any assessable income during the year.

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8. DIVIDENDS

Interim – 0.4 HK cent (2001: 2.5 HK cents) per ordinary share
Proposed final – NIL (2001: 2.0 HK cents) per ordinary share

2002 HK\$'000	2001 HK\$'000
8,815	5,500
-	8,811
8,815	14,311

The amount of the interim dividend is calculated based on 2,203,636,000 (2001: 220,000,000) shares in issue at the date of declaration of the interim dividend by the board of directors of the Company.

The amount of the 2001 proposed final dividend was calculated based on 440,567,200 ordinary shares in issue as at 23 April 2002, being the date of approval of the financial statements for the year ended 31 December 2001.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was approximately HK\$13,765,000 (2001: HK\$15,689,000).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the year of HK\$11,674,000 (2001: HK\$13,458,000) and the weighted average of 2,203,290,247 (2001: 2,168,455,430) ordinary shares in issue during the year on the assumption that the subdivision of 1 share of HK\$0.10 each into 5 shares of HK\$0.02 each (note 23(f)) had been completed on 1 January 2002.

The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders for the year of HK\$11,674,000 (2001: HK\$13,458,000) and on the weighted average of 2,334,198,296 (2001: 2,200,533,025) ordinary shares in issue. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the 2,203,290,247 (2001: 2,168,455,430) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 130,908,049 (2001: 32,077,595) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year, and on the assumption that the subdivision of 1 share of HK\$0.10 each into 5 shares of HK\$0.02 each (note 23(f)) had been completed on 1 January 2002.

The weighted average number of ordinary shares for the year ended 31 December 2001 for the purpose of basic earnings per share and diluted earnings per share have been adjusted for the share subdivision during 2002.

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11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

Directors' fees and emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the provisions of the Listing Rules are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	-	-
Other emoluments:		
– basic salaries, other allowances and benefits in kind	3,929	4,256
– retirement benefits schemes contributions	341	348
	4,270	4,604

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

	Group			
	Executive directors		Independent non-executive directors	
	2002	2001	2002	2001
HK\$Nil – HK\$1,000,000	1	1	2	2
HK\$1,000,001 – HK\$1,500,000	2	2	-	-
	3	3	2	2

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

No directors waived or agreed to waive any remuneration in respect of the years ended 31 December 2002 and 2001.

During the year, there were no emoluments 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. (2001: NIL)

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11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, three (2001: three) were the directors of the Company, details of whose remuneration are set out in note (a) above. Details of the remuneration of the remaining two (2001: two) highest paid individuals, both of which fell within the NIL to HK\$1,000,000 band, are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries, other allowances and benefits in kind	1,200	1,153
Retirement benefits schemes contributions	75	77
	1,275	1,230

During the year, no emoluments were paid to the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2001: Nil)

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12. PROPERTY, PLANT AND EQUIPMENT

Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation								
At 1 January 2002	7,280	121,789	1,951	26,719	6,980	4,127	2,848	171,694
Additions	-	98	6	473	11,365	248	273	12,463
Accumulated depreciation eliminated on revaluation	-	(3,755)	-	-	-	-	-	(3,755)
Write off	-	-	-	-	-	(161)	-	(161)
Revaluation (deficits)/ surplus - charged to the income statement	(257)	(407)	-	-	-	-	-	(664)
- dealt with in the revaluation reserves	(40)	1,855	-	-	-	-	-	1,815
At 31 December 2002	6,983	119,580	1,957	27,192	18,345	4,214	3,121	181,392
Accumulated depreciation								
At 1 January 2002	-	-	1,181	10,369	2,729	2,448	1,718	18,445
Charge for the year	-	3,755	196	2,211	1,249	344	261	8,016
Write off	-	-	-	-	-	(33)	-	(33)
Eliminated on revaluation	-	(3,755)	-	-	-	-	-	(3,755)
At 31 December 2002	-	-	1,377	12,580	3,978	2,759	1,979	22,673
Net book value								
At 31 December 2002	6,983	119,580	580	14,612	14,367	1,455	1,142	158,719
At 31 December 2001	7,280	121,789	770	16,350	4,251	1,679	1,130	153,249

Notes to the Financial Statements

Year ended 31 December 2002

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The analysis of the cost or valuation of the above assets is as follows :

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	-	-	1,957	27,192	18,345	4,214	3,121	54,829
At professional valuation	6,983	119,580	-	-	-	-	-	126,563
	6,983	119,580	1,957	27,192	18,345	4,214	3,121	181,392

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Medium term leases held in Hong Kong	9,250	9,920
Medium term leases held outside Hong Kong	108,408	109,860
Long term leases held outside Hong Kong	1,922	2,009
	119,580	121,789

The leasehold land and buildings situated in Hong Kong for office purposes and outside Hong Kong for residential, office and retail shop purposes were valued as at 31 December 2002 at HK\$21,733,000 on an open market value basis by Castores Magi Surveyors Limited ("Castores"), an independent firm of professional valuers. The medium term leasehold land and buildings situated outside Hong Kong for the Group's production facilities were valued by Castores as at 31 December 2002 at HK\$97,847,000 on a depreciated replacement cost basis.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation and amortisation, they would have been included in the financial statements at approximately HK\$45,830,000 (2001: HK\$47,863,000).

Notes to the Financial Statements

Year ended 31 December 2002

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Medium term leases held in Hong Kong	940	980
Long term leases held outside Hong Kong	6,043	6,300
	6,983	7,280

The investment properties were valued on an open market basis by Castores at 31 December 2002. The investment properties held in Hong Kong include workshops 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 30 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 2001, the Group acquired certain leasehold land and buildings for residential and retail shop purposes and investment properties in the PRC (the "Properties") with carrying values of approximately HK\$9,481,000 and HK\$6,043,000 respectively, at 31 December 2002.

The Group is in the process of applying for the ownership certificates for the 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 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, from 1 January 2003 up to the year 2050, with carrying value of HK\$70,436,000 as at 31 December 2002.

At 31 December 2002, certain of the Group's leasehold land and buildings and investment properties with carrying values of approximately HK\$107,097,000 and HK\$940,000 respectively were pledged to secure general banking facilities granted to the Group as detailed in note 21 to the financial statements.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 December 2002, amounted to HK\$1,091,000 (2001: HK\$1,065,000).

Notes to the Financial Statements

Year ended 31 December 2002

13. GOODWILL

	Group HK\$'000
Gross amount	
At 1 January 2002 and at 31 December 2002	1,345
Accumulated amortisation	
At 1 January 2002	90
Amortisation during the year	269
At 31 December 2002	359
Carrying value	
At 31 December 2002	986
At 31 December 2001	1,255

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Investments – Unlisted shares, at cost	125,261	125,261
Amounts due from subsidiaries	49,709	53,205

The amounts due from subsidiaries are unsecured, interest-free and with no fixed terms of repayment.

Notes to the Financial Statements

Year ended 31 December 2002

14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 are as follows:

Name	Country/Place of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interests held by the Company		Principal activities
			Direct	Indirect	
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	US\$50,500 Ordinary shares	100%	–	Investment holding
Kiu Hung International Enterprises Limited	Hong Kong	HK\$2 Ordinary shares HK\$10,000 Non-voting deferred (Note (a))	–	100%	Investment holding, and manufacture and trading of decorative gift items
Kiu Hung Toys Company Limited	Hong Kong	HK\$2 Ordinary shares HK\$10,000 Non-voting deferred (Note (a))	–	100%	Investment holding, and manufacture and trading of toys
Turkasians Ltd.	BVI	US\$100 Ordinary shares	–	100%	Manufacture and trading of decorative gift items and toys
China Venturers Textiles Limited	BVI	US\$50,000 Ordinary shares	–	100%	Provision of quality control services in the PRC

Notes to the Financial Statements

Year ended 31 December 2002

14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 are as follows:

Name	Country/Place of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interests held by the Company		Principal activities
			Direct	Indirect	
Cherfit Services Limited	BVI	US\$100 Ordinary shares	–	100%	Provision of marketing and promotion, and management services in the PRC
Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian 福建莆田市僑雄輕工有限公司 (Note (b))	PRC	US\$5,000,000	–	100%	Manufacture of decorative gift items
Qiao Xiong Toys Co., Ltd. Putian Fujian 福建省莆田市僑雄玩具有限公司 (Note (c))	PRC	HK\$10,000,000	–	100%	Manufacture of toys
Fujian Kcare Gifttoys Co., Ltd. 福建奇嘉禮品玩具有限公司 (Note (d))	PRC	Renminbi (“RMB”) \$10,000,000	–	100%	Trading of decorative gift items and toys
Newgary Development Limited (“Newgary”)	Hong Kong	HK\$2 Ordinary shares HK\$10,000 Non-voting deferred (Note (a))	–	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

Notes to the Financial Statements

Year ended 31 December 2002

14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2002 are as follows:

Name	Country/Place of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interests held by the Company		Principal activities
			Direct	Indirect	
Top Point Investments Limited	BVI	US\$100 Ordinary shares	–	100%	Investment in securities in Hong Kong
Kiu Hung Investments Limited	Hong Kong	HK\$2 Ordinary shares	–	100%	Property holding
Jubilee Creations, Inc.	USA	US\$200	–	51%	Trading of decorative gift items and toys
Kiu Hung Industries Limited	Hong Kong	HK\$1,000 Ordinary shares	–	100%	Manufacture and trading of decorative gift items and toys
Kiu Hung Macau Commercial Offshore Ltd.	Macau	MOP100,000 Ordinary shares	–	100%	Manufacture and trading of decorative gift items and toys

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

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 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 fully paid up by the Group.

Notes to the Financial Statements

Year ended 31 December 2002

14. INTERESTS IN SUBSIDIARIES (Continued)

- (c) Qiao Xiong Toys 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 1996. Its registered capital is HK\$10,000,000 which has been fully paid up by the Group.
- (d) Fujian Kcare Gifttoys 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 its RMB10,000,000 which has been fully 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 fully 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.

15. INTEREST IN AN ASSOCIATE

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	-	-
Amount due from an associate	2,213	-

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

Particulars of the associate at 31 December 2002 are as follows:

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of interest held by the Group		Principal activities
			2002	2001	
Miracles For Fun (HK) Limited	Hong Kong	HK\$100 Ordinary shares	30	-	Trading of toys and decorative items

Notes to the Financial Statements

Year ended 31 December 2002

16. SHORT TERM INVESTMENTS

Hong Kong listed equity securities, at market value

Group	
2002 HK\$'000	2001 HK\$'000
10,090	9,379

17. INVENTORIES

Raw materials
Work in progress
Finished goods

Group	
2002 HK\$'000	2001 HK\$'000
8,075	7,813
2,028	2,593
1,810	4,252
11,913	14,658

All the inventories are stated at cost.

18. 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.

At 31 December 2002, the ageing analysis of the trade and bills receivables, net of provision is as follows:

Current to 30 days
31 days to 90 days
91 days to 180 days
Over 180 days

Group	
2002 HK\$'000	2001 HK\$'000
3,509	10,099
4,157	6,891
356	688
1,477	1,695
9,499	19,373

Notes to the Financial Statements

Year ended 31 December 2002

19. CASH AND BANK BALANCES

Included in cash and bank balances is an amount of approximately HK\$25,283,000 (2001: HK\$30,981,000), representing RMB deposits placed with banks in the PRC by the Group.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

20. TRADE AND BILLS PAYABLES

At 31 December 2002, the ageing analysis of the trade payables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current to 30 days	1,120	2,823
31 days to 90 days	2,076	3,025
91 days to 180 days	279	911
181 days to 360 days	57	743
Over 360 days	508	335
	4,040	7,837

Notes to the Financial Statements

Year ended 31 December 2002

21. BANK AND TRUST RECEIPT LOANS (SECURED)

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest bearing bank loans	30,044	30,604
Interest bearing trust receipt loans	2,474	417
	32,518	31,021
Bank loans repayable:		
Within one year or on demand	17,260	26,775
In the second year	406	389
In the third to fifth years, inclusive	10,667	1,267
Over five years	1,711	2,173
Trust receipt loans repayable within one year or on demand	2,474	417
	32,518	31,021
Less : Current portion due within one year included under current liabilities	(19,734)	(27,192)
Non-current portion included under non-current liabilities	12,784	3,829

At 31 December 2002, 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\$107,097,000 (2001: HK\$108,300,000) and HK\$940,000 (2001: HK\$980,000), respectively (note 12);
- (ii) corporate guarantees executed by the Company to the extent of HK\$79 million (2001: HK\$108 million);
- (iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$103 million (2001: HK\$93 million); and
- (iv) cross corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$23 million (2001: NIL).

Notes to the Financial Statements

Year ended 31 December 2002

22. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable:				
Within one year	338	270	316	257
In the second year	338	270	279	234
In the third to fifth years inclusive	417	541	306	393
Total minimum finance lease payments	1,093	1,081	901	884
Future finance charges	(192)	(197)		
Total net finance lease payables	901	884		
Less: Current portion due within one year included under current liabilities	(316)	(257)		
Non-current portion included under non-current liabilities	585	627		

23. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
Authorised:			
At 1 January 2001, 31 December 2001 and 1 January 2002, ordinary shares of HK\$0.10 each		1,000,000,000	100,000
Subdivision of shares	(f)	4,000,000,000	—
At 31 December 2002, ordinary shares of HK\$0.02 each		5,000,000,000	100,000

Notes to the Financial Statements

Year ended 31 December 2002

23. SHARE CAPITAL (Continued)

	Notes	Number of shares	Amount HK\$'000
Issued and fully paid:			
At 31 December 2000, ordinary shares of HK\$0.10 each		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	(a)	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 on public listing	(b)	55,000,000	5,500
Capitalisation issue credited as fully paid	(a)	–	16,400
Bonus issue	(c)	220,000,000	22,000
Exercise of warrants	(d)	287,200	29
At 31 December 2001 and 1 January 2002, ordinary shares of HK\$0.10 each		440,287,200	44,029
Exercise of warrants before subdivision of shares	(e)	440,000	44
Subdivision of shares	(f)	1,762,908,800	–
Exercise of warrants after subdivision of shares	(g)	300,000	6
At 31 December 2002, ordinary shares of HK\$0.02 each		2,203,936,000	44,079

Notes to the Financial Statements

Year ended 31 December 2002

23. SHARE CAPITAL (Continued)

Notes:

- (a) 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 (b) below.
- (b) 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.
- (c) 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 appeared 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 then issued shares of the Company.
- (d) During 2001, 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.
- (e) During the period from 1 January 2002 to 28 May 2002 (before the subdivision of shares), warrants were exercised for 440,000 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\$308,000, before issue expenses, had been received by the Company.
- (f) Pursuant to an ordinary resolution passed at the general meeting of the Company held on 28 May 2002, the authorised share capital of the Company of HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each was subdivided into 5,000,000,000 shares of HK\$0.02 each by subdividing every issued and unissued shares of HK\$0.10 in the capital of the Company into five shares of HK\$0.02 each ("Subdivided Shares") and that all the Subdivided Shares rank pari passu in all respects with the then existing shares of the Company.
- (g) During the period from 29 May 2002 to 31 December 2002 (after the subdivision of shares), warrants were exercised for 300,000 ordinary Subdivided Shares of HK\$0.02 each in the Company at a price of HK\$0.14 per Subdivided Share and a total consideration of approximately HK\$42,000, before issue expenses, had been received by the Company.

Notes to the Financial Statements

Year ended 31 December 2002

24. WARRANTS

Pursuant to a resolution passed by the board of directors on 28 August 2001, a bonus issue of warrants was made on the basis of one warrant for every five ordinary shares held by the shareholders of the Company whose names appeared on the register of members 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 warrants entitle 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 2001, 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.

During the period from 1 January 2002 to 28 May 2002 (before the subdivision of shares), 440,000 warrants were exercised and resulted in issue of 440,000 new ordinary shares in the Company at a subscription price of HK\$0.70 per share for a total consideration of HK\$308,000. The excess of the cash consideration received over the nominal value of the shares issued, amounting to HK\$264,000 had been credited to the share premium account.

During the period from 29 May 2002 to 31 December 2002 (after the subdivision of shares), 60,000 warrants were exercised and resulted in issue of 300,000 new ordinary Subdivided Shares in the Company at a subscription price of HK\$0.14 per Subdivided Share for a total consideration of HK\$42,000. The excess of the cash consideration received over the nominal value of the shares issued, amounting to HK\$36,000 had been credited to the share premium account.

As at 31 December 2002, the Company had 87,212,800 warrants outstanding. Each warrant entitles the holder thereof to subscribe for five new ordinary Subdivided 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 shares subdivision during the year) per Subdivided 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 436,064,000 additional ordinary Subdivided Shares of the Company at a total consideration, before issue expenses, of approximately HK\$61,049,000.

25. SHARE OPTIONS

The Company operates a share option scheme, further details of which are set out in "Share Option Scheme" section in the Report of the Directors on pages 12 and 13.

During the year, no share options had been granted under the share option scheme (2001: Nil).

As at 31 December 2002, no options had been granted or outstanding under the share option scheme operated by the Company.

Notes to the Financial Statements

Year ended 31 December 2002

26. RESERVES

Group

	Share premium HK\$'000	Statutory	Capital reserve HK\$'000 (note (b))	Exchange	Investment	Assets	Retained profits HK\$'000	Total HK\$'000
		surplus reserve HK\$'000 (note (a))		fluctuation reserve HK\$'000	property revaluation reserve HK\$'000	revaluation reserve HK\$'000		
At 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)
Appropriations	-	749	-	-	-	-	(749)	-
Capitalisation of share premium on initial public offering (note 23(a))	(16,400)	-	-	-	-	-	-	(16,400)
Bonus issue of shares (note 23(c))	(20,795)	-	-	-	-	-	(1,205)	(22,000)
Revaluation surplus	-	-	-	-	-	2,779	-	2,779
Profit attributable to shareholders	-	-	-	-	-	-	13,458	13,458
Interim dividend	-	-	-	-	-	-	(5,500)	(5,500)
Proposed final dividend	-	-	-	-	-	-	(8,811)	(8,811)
At 31 December 2001 and at 1 January 2002	172	749	702	(2,857)	378	76,739	50,954	126,837
Issue of shares	300	-	-	-	-	-	-	300
Appropriations	-	227	-	-	-	-	(227)	-
Revaluation surplus/(deficit)	-	-	-	-	(40)	1,855	-	1,815
Profit attributable to shareholders	-	-	-	-	-	-	11,674	11,674
Interim dividend	-	-	-	-	-	-	(8,815)	(8,815)
At 31 December 2002	472	976	702	(2,857)	338	78,594	53,586	131,811

Notes to the Financial Statements

Year ended 31 December 2002

26. RESERVES (Continued)

Company

	Share premium HK\$'000	Capital reserve HK\$'000 (note (b))	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 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 23(a))	(16,400)	–	–	(16,400)
Bonus issue of shares (note 23(c))	(20,795)	–	(1,205)	(22,000)
Profit attributable to shareholders	–	–	15,689	15,689
Interim dividend	–	–	(5,500)	(5,500)
Proposed final dividend	–	–	(8,811)	(8,811)
At 31 December 2001 and at 1 January 2002	172	125,161	51	125,384
Issue of shares	300	–	–	300
Profit attributable to shareholders	–	–	13,765	13,765
Interim dividend	–	–	(8,815)	(8,815)
At 31 December 2002	472	125,161	5,001	130,634

(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 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.

Notes to the Financial Statements

Year ended 31 December 2002

26. RESERVES (Continued)

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31 December 2002 consisted of the aggregate of the share premium, capital reserve and retained profits totalling approximately HK\$130,634,000 (2001: HK\$134,195,000).

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK\$257,000.

(b) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Property, plant and equipment	-	11,544
Cash and bank balances	-	997
Inventories	-	1,622
Trade receivables	-	1,369
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

Notes to the Financial Statements

Year ended 31 December 2002

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (Continued)

Analysis of the net cash outflow of cash and bank balances in respect of the acquisition of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	-	(11,487)
Cash and bank balances acquired	-	997
Net outflow of cash and bank balances in respect of the acquisition of subsidiaries	-	(10,490)

During 2001, 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 consideration of HK\$4,945,000. In addition, the Group also acquired the entire equity interest in Zheng Defu with a cash consideration of HK\$6,542,000 from an independent third party.

The subsidiaries acquired during 2001 contributed HK\$6,877,000 to the Group's turnover and HK\$1,166,000 to profit attributable to shareholders for the year ended 31 December 2001. The subsidiaries acquired also contributed HK\$392,000 to the Group's net cash outflows from operating activities, utilised HK\$17,278,000 in respect of the cash flows for investing activities, utilised HK\$133,000 in respect of cash flows for financing activities, but had no significant impact in respect of the Group's cash flows for tax for that year.

Notes to the Financial Statements

Year ended 31 December 2002

28. DEFERRED TAXATION

	2002 HK\$'000	2001 HK\$'000
At 1 January	554	1,026
Transferred to consolidated income statement (note 7)	(230)	(472)
At 31 December	324	554

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.

29. RELATED PARTY TRANSACTIONS

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

Nature of transaction	2002 HK\$'000	2001 HK\$'000
Sales to an associate	1,585	–
Sales of moulds to an associate	568	–

The directors consider that the sales of goods and moulds to the associate were made according to similar terms offered to other customers of the Group.

Notes to the Financial Statements

Year ended 31 December 2002

30. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties 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 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	305	302

(b) As lessee

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

At 31 December 2002, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	580	398
In the second to fifth years, inclusive	393	391
	973	789

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, from 1 January 2003 up to the year 2050, with a carrying value of HK\$70,436,000 as at 31 December 2002.

(c) At 31 December 2002, the Company had no operating lease commitments.

31. CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitments as at the balance sheet date (2001: Nil).

Notes to the Financial Statements

Year ended 31 December 2002

32. PLEDGE OF ASSETS

At 31 December 2002, the Group's leasehold land and buildings and investment properties with aggregate carrying values of approximately HK\$107,097,000 and HK\$940,000 respectively were pledged to banks to secure the Group's bank and trust receipt loans.

33. CONTINGENT LIABILITIES

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

	Company	
	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	79,000	108,400

The Group did not have any significant contingent liabilities as at the balance sheet date (2001: Nil).

34. RETIREMENT BENEFITS SCHEMES

The Group operates a Pension Scheme and a MPF Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees.

The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the retirement schemes at a certain percentage of the basic salaries of their employees.

The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of HK\$859,000 (2001: HK\$779,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. As at 31 December 2002 and 2001, no contributions due in respect of the reporting years had not been paid over to the scheme.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2002 in respect of the retirement of its employees.

Notes to the Financial Statements

Year ended 31 December 2002

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, 715,200 warrants were exercised and resulted in the issue of 3,576,000 new ordinary shares in the Company at a subscription price of HK\$0.14 (adjusted for the effect of one-to-five shares subdivision during the year) per share for a total consideration of approximately HK\$501,000.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 18 to 68 were approved by the board of directors on 23 April 2003.