

Kiu Hung International Holdings Limited

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 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2003	2002
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Notes		
TURNOVER	3	29,748	43,242
Cost of sales		(17,457)	(23,994)
Gross profit		12,291	19,248
Other revenue	3	1,168	6,953
Distribution costs		(2,854)	(4,335)
Administrative expenses		(8,006)	(8,396)
Other operating expenses		(1,049)	(465)
OPERATING PROFIT	4	1,550	13,005
Finance costs	5	(1,177)	(1,315)
Share of loss of an associate		-	(61)
PROFIT BEFORE TAXATION		373	11,629
Taxation	6	(47)	(2,049)
PROFIT AFTER TAXATION		326	9,580
Minority interest		(37)	-
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		289	9,580
DIVIDENDS	7	-	8,815
EARNINGS PER SHARE	8		
- Basic		HK0.01cent	HK0.43cent
- Diluted		HK0.01cent	HK0.41cent

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	156,735	158,719
Goodwill		852	986
Interest in an associate	10	-	-
		157,587	159,705
CURRENT ASSETS			
Inventories		22,880	11,913
Trade and bills receivables	11	11,415	9,499
Other receivables		2,078	4,956
Amount due from an associate	10	2,713	2,213
Short term investments		9,174	10,090
Cash and bank balances		38,062	37,890
		86,322	76,561
CURRENT LIABILITIES			
Trade and bills payables	12	6,482	4,040
Other payables and accruals		11,375	7,312
Bank and trust receipt loans (secured)		18,510	19,734
Finance lease payables		555	316
Provision for tax		14,825	15,276
		51,747	46,678
NET CURRENT ASSETS		34,575	29,883
TOTAL ASSETS LESS CURRENT LIABILITIES		192,162	189,588

	Notes	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Bank loans (secured)		14,329	12,784
Finance lease payables		411	585
Deferred tax		17,205	17,205
		31,945	30,574
Minority interest		93	5
		160,124	159,009
NET ASSETS			
CAPITAL AND RESERVES			
Share capital	13	44,197	44,079
Reserves		115,927	114,930
		160,124	159,009
SHAREHOLDERS' FUNDS			
		160,124	159,009

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June

	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	329	11,475
Net cash outflow from investing activities	(2,157)	(871)
Net cash inflow /(outflow) from financing activities	2,000	(10,206)
Increase in cash and bank balances	172	398
Cash and bank balances at 1 January	37,890	42,699
Cash and bank balances at 30 June	38,062	43,097

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Six months ended 30 June	
		2003	2002
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Notes			
	Balance at 1 January, as previously reported	175,890	179,677
	Change in accounting policy – provision for deferred tax liabilities	(16,881)	(16,881)
	Balance at 1 January, as restated	159,009	162,796
	Issue of new shares	118	44
	Premium arising from issue of new shares	708	264
	Profit attributable to shareholders	289	9,580
	Dividends paid	–	(8,811)
	Balance as at 30 June	160,124	163,873

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with the requirements of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2002 except for the adoption of the new SSAP No. 2.112 (Revised) "Income Taxes".

In prior year, deferred taxation was provided for at the current taxation rate in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Under SSAP No. 2.112 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts, based on the tax rates enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary defences can be utilised.

The adoption of SSAP No. 2.112 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. In this connection, the balances of assets revaluation reserve at 1 January 2003, 30 June 2002 and 1 January 2002 have been reduced by approximately HK\$16,881,000, representing the unprovided deferred tax liabilities on assets revaluation reserve which were not expected to be crystallised in the foreseeable future. The adoption of SSAP No. 2.112 (revised) has no significant effect on the Group's results for the current or prior accounting periods.

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 25 August 2003.

2. SEGMENT INFORMATION

(a) Business segments

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

	Toys		Decorative gift items		Total	
	Six months ended		Six months ended		Six months ended	
	30 June	30 June	30 June	30 June	30 June	30 June
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	22,094	26,324	7,654	16,918	29,748	43,242
Segment results	2,208	6,168	479	1,847	2,687	8,015
Interest, rental income and unallocated gains					1,168	6,953
Unallocated expenses					(2,305)	(1,963)
Operating profit					1,550	13,005
Finance costs					(1,177)	(1,315)
Share of loss of an associate					-	(61)
Profit before taxation					373	11,629
Taxation					(47)	(2,049)
Minority interest					(37)	-
Profit attributable to shareholders					289	9,580

(b) Geographical segments

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

	The PRC (including Hong Kong)		North America		European Union		Others		Total	
	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	
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (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	13,572	24,462	10,388	10,998	4,058	5,817	1,730	1,965	29,748	43,242
Segment results	5,820	10,618	(2,072)	(1,666)	(726)	(708)	(335)	(229)	2,687	8,015

3. 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:

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover - sale of goods	29,748	43,242
Other revenue		
Bank interest income	176	83
Gross rental income	365	13
Exchange gains, net	69	151
Unrealised holding gain on short term investments	-	6,099
Proceeds from sale of moulds	277	-
Dividend income	119	99
Others	162	508
	1,168	6,953

4. OPERATING PROFIT

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

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	4,368	3,591
Amortisation of Goodwill	134	134
Unrealised holding loss on short term investments	916	–
	916	–

5. FINANCE COSTS

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on bank loans and trust receipt loans wholly repayable within five years	1,141	1,290
Interest on finance leases	36	25
	1,177	1,315

6. TAXATION

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for the period:		
Hong Kong	25	28
Elsewhere	22	2,021
Tax charge for the period	47	2,049

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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.

7. DIVIDENDS

The Board has resolved not to pay any interim dividend for the period (2002: HK0.4 cent per share).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of HK\$289,000 (2002: HK\$9,580,000) and the weighted average of 2,206,762,740 (2002: 2,202,640,972) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the period of HK\$289,000 (2002: HK\$9,580,000) and weighted average of 2,445,702,457 (2002: 2,353,877,271) ordinary shares in issue. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the weighted average of 2,206,762,740 (2002: 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 238,939,717 (2002: 151,236,299) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the period.

9. PROPERTY, PLANT AND EQUIPMENT

The changes in the net book value of property, plant and equipment for the six months ended 30 June 2003 are analysed as follows:

	(Unaudited) HK\$'000
At 1 January 2003	158,719
Additions	2,384
Depreciation	(4,368)
At 30 June 2003	156,735

10. INTEREST IN AN ASSOCIATE

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Share of net assets	-	-
Amount due from an associate	2,713	2,213

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

11. 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 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.

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An ageing analysis of trade and bills receivables as at 30 June 2003, net of provision, is as follows:

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Current to 30 days	4,508	3,509
31 days to 90 days	3,998	4,157
91 days to 180 days	1,442	356
Over 180 days	1,467	1,477
	11,415	9,499

12. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables as at 30 June 2003 is as follows:

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Current to 30 days	3,017	1,120
31 days to 90 days	2,421	2,076
91 days to 180 days	491	279
181 days to 360 days	187	57
Over 360 days	366	508
	6,482	4,040

13. SHARE CAPITAL

	As at 30 June 2003 (Unaudited) HK\$'000	As at 31 December 2002 (Audited) HK\$'000
Authorised: 5,000,000,000 ordinary shares of HK\$0.02 each	100,000	100,000

	Number of ordinary shares of HK\$0.02 each	Par value HK\$'000
Issued and fully paid:		
At 1 January 2003	2,203,936,000	44,079
Shares issued on exercise of warrants	5,896,000	118
At 30 June 2003	2,209,832,000	44,197

Warrants

As at 30 June 2003, the Company had 86,033,600 warrants outstanding. Each warrant entitles the holders thereof to subscribe for five 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 in 2002) 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 430,168,000 additional ordinary shares of the Company at a total consideration, before issue expenses, of approximately HK\$60,224,000.

Share options

Effective from 28 May 2002, the Company has adopted a new share option scheme (the "New Scheme") to replace the original scheme adopted on 22 January 2001. A summary of the terms of the New Scheme was contained in the Company's circular dated 3 May 2002.

No options had been granted or outstanding under the share option scheme operated by the Company up to the date of this report.

14. RELATED PARTY TRANSACTIONS

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	2003	2002
	HK\$'000	HK\$'000
Sales to an associate	704	650

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

BUSINESS REVIEW

For the six months ended 30 June 2003, the Group's turnover and profit attributable to shareholders were approximately HK\$29.7 million and HK\$0.3 million respectively, representing decreases of approximately 31% and 97% respectively over the corresponding period in 2002. Basic Earnings per share for the period was HK 0.01 cent (2002: HK0.43 cent). Revenue from toys and decorative gift items has declined by approximately 16% and 55% respectively over the previous period.

During the period, the global economy remains sluggish and the outbreaks of Atypical Pneumonia ("SARS") has further weakened the consumer confidence. While orders and shipments for our overseas customers have been postponed, the market spending in the People's Republic of China (the "PRC") was also adversely affected, resulting in a decrease in our sales for the period. In addition, the Group did not record gains from short term investment during the period as it did for the corresponding period of last year, which was the main reason for the drop in earnings for the first half of 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 PRC. The Group has cash and bank balances of approximately HK\$38.1 million as at the balance sheet date. The Group's cash and bank balances 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 75% of such borrowings bear interest at fixed lending rate. At 30 June 2003, the Group's bank and other borrowings amounted to approximately HK\$33.8

million, out of which approximately 56% 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 14% as at 30 June 2003. Net current assets at 30 June 2003 was approximately HK\$34.6 million and the current ratio was maintained at a healthy level of approximately 167%. As the Group's operations are all located in Hong Kong and the PRC, no use of financial instruments for hedging is considered necessary.

At 30 June 2003, certain of the Group's investment properties and leasehold land and buildings with carrying value of approximately HK\$940,000 and HK\$72,400,000, respectively, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2003, the Group did not have any contingent liabilities (2002: Nil).

At 30 June 2003, the Group has a total of 1,103 employees. The Group always maintains good working relations with its employees and has committed itself to 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 development and to develop new series of products with add-on features and functions. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC. The Group will actively explore co-operation opportunities with famous brandnames and retail chain stores to strengthen its marketing efforts and broaden its customer base. We have a highly qualified and experienced management team, and we will continue to recruit professionals with in-depth knowledge and expertise in the decorative gift and toy industries to enable the Group to operate effectively and efficiently. Our flexible and versatile production facility and operating capability allow us to respond quickly to changing market demand. With the committed effort of our management and employees, we are optimistic on the prospects of the Group.

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 22 January 2001, after deduction of related expenses, amounted to approximately HK\$43 million. As of 30 June 2003, the net proceeds were applied in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

- approximately HK\$5 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 PRC; and
- 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 2003, the interests of the directors or their associates in the share capital of the Company or its associated corporations as recorded in the register of interests maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were set out as below:

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	–	–	62,700,000	–
Mr. Hui Ki Yau	–	–	–	–
Ms. Hui Hung Tan, Teresa	–	–	–	–

Note: The 1,567,500,000 shares and 62,700,000 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 interests 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 2003 ("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 5% 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 Ai 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

25 August 2003