

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 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 Company's subsidiaries are set out in note 14. 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 19 to 66 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 leasehold land and buildings, investment properties and short term investments.

### ADOPTION OF REVISED SSAP

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The new accounting policy has been applied retrospectively, and accordingly comparative amounts for the financial year 2002 have been restated. The Group's opening assets revaluation reserve as at 1 January 2002 has been decreased by HK\$16,881,000.

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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

For the year ended 31 December 2003

## 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:

	<b>Residual value</b>	
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

*For the year ended 31 December 2003*

## 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.

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.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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 from the date of initial recognition and on the straight-line basis over its estimated useful life for a period of not exceeding twenty 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.

### (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.

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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.

### (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 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

*For the year ended 31 December 2003*

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (l) PRODUCTION AND DISTRIBUTION RIGHTS

#### (i) MEASUREMENT BASIS

Production and distribution rights represent the exclusive right to produce and distribute the nano plush toys in the People's Republic of China ("PRC") and the non-exclusive right to produce and distribute the nano decorative gift items in the PRC. Those products are made with textiles that are processed by using the "Swedish Texcote Technology". The rights are stated at cost less accumulated amortisation and impairment losses.

#### (ii) AMORTISATION

Amortisation on the cost of the rights is charged to the income statement on a straight-line basis over the contracted period of the rights of 5 years.

### (m) 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 measure reliably, there is reasonable certainty that the projects are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the expected commercial lives of the underlying products, subject to a maximum period of five years, commencing from the date when the products are put into commercial production.

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (n) EMPLOYEE BENEFITS

#### (i) EMPLOYEE ENTITLEMENTS

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments 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.

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 Schemes 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 been operated since 1 December 2000.

Employees in the 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% (2002: 18%-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.



# Notes to the Financial Statements

For the year ended 31 December 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) FOREIGN CURRENCIES

Transactions 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.

### (p) INCOME TAX

Income tax for the year comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) 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.

### (r) 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.

### (s) 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.

## 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.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 3. SEGMENT INFORMATION (Continued)

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.

### (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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Segment revenue:</b>						
Sales to external customers	<b>52,866</b>	60,380	<b>31,180</b>	39,963	<b>84,046</b>	100,343
<b>Segment results</b>	<b>418</b>	9,484	<b>(2,233)</b>	5,351	<b>(1,815)</b>	14,835
Interest, rental income and unallocated gains					<b>4,127</b>	3,779
Unallocated expenses					<b>(5,151)</b>	(2,290)
Operating (loss)/profit					<b>(2,839)</b>	16,324
Finance costs					<b>(2,397)</b>	(2,235)
Share of profit of an associate					<b>460</b>	-
(Loss)/Profit before taxation					<b>(4,776)</b>	14,089
Taxation					<b>169</b>	(2,411)
Minority interest					<b>2</b>	(4)
(Loss)/Profit attributable to shareholders					<b>(4,605)</b>	11,674
<b>Segment assets</b>	<b>123,955</b>	108,808	<b>81,660</b>	89,126	<b>205,615</b>	197,934
Unallocated assets					<b>33,454</b>	38,332
<b>Total assets</b>					<b>239,069</b>	236,266
<b>Segment liabilities</b>	<b>32,839</b>	14,954	<b>27,694</b>	13,564	<b>60,533</b>	28,518
Unallocated liabilities					<b>21,754</b>	31,853
<b>Total liabilities</b>					<b>82,287</b>	60,371

# Notes to the Financial Statements

For the year ended 31 December 2003

## 3. SEGMENT INFORMATION (Continued)

### (a) BUSINESS SEGMENTS (Continued)

	Toys		Decorative gift items		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Other segment information:</b>						
Depreciation and amortisation	4,889	3,867	3,586	3,386	8,475	7,253
Unallocated amounts					931	1,032
					<b>9,406</b>	<b>8,285</b>
<b>Other non-cash expenses</b>	<b>1,738</b>	1,020	<b>4,139</b>	207	<b>5,877</b>	1,227
Unallocated amounts					2,716	664
					<b>8,593</b>	<b>1,891</b>
<b>Capital expenditure</b>	<b>2,582</b>	11,421	<b>1,382</b>	873	<b>3,964</b>	12,294
Unallocated amount					-	169
					<b>3,964</b>	<b>12,463</b>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 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	
	2003		2002		2003		2002		2003		2002		2003		2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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>22,184</u>	<u>38,955</u>	<u>42,171</u>	<u>42,870</u>	<u>13,925</u>	<u>15,273</u>	<u>5,766</u>	<u>3,245</u>	<u>84,046</u>	<u>100,343</u>						
Segment results	<u>6,028</u>	<u>18,253</u>	<u>(5,453)</u>	<u>(2,444)</u>	<u>(1,691)</u>	<u>(812)</u>	<u>(699)</u>	<u>(162)</u>	<u>(1,815)</u>	<u>14,835</u>						
Other segment information:																
Segment assets	<u>201,827</u>	<u>196,263</u>	<u>3,788</u>	<u>1,471</u>	<u>-</u>	<u>184</u>	<u>-</u>	<u>16</u>	<u>205,615</u>	<u>197,934</u>						
Unallocated assets									<u>33,454</u>	<u>38,332</u>						
									<u>239,069</u>	<u>236,266</u>						
Capital expenditure	<u>3,964</u>	<u>12,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,964</u>	<u>12,294</u>						
Unallocated amount									<u>-</u>	<u>169</u>						
									<u>3,964</u>	<u>12,463</u>						

# Notes to the Financial Statements

For the year ended 31 December 2003

## 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:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover – sale of goods	<b>84,046</b>	100,343
Other revenue		
Bank interest income	<b>327</b>	226
Gross rental income	<b>542</b>	410
Dividend income from listed investments	<b>119</b>	–
Exchange gains, net	<b>359</b>	531
Sale of moulds	<b>844</b>	1,002
Unrealised holding gains on short term investments	<b>953</b>	711
Others	<b>983</b>	899
	<b>4,127</b>	3,779
Total revenue	<b>88,173</b>	104,122

# Notes to the Financial Statements

For the year ended 31 December 2003

## 5. OPERATING (LOSS)/PROFIT

	Group	
	2003 HK\$'000	2002 HK\$'000
Operating (loss)/profit is arrived at after charging:		
Amortisation of goodwill (included in other operating expenses)	269	269
Amortisation of production and distribution rights (included in distribution costs)	333	–
Auditors' remuneration	500	400
Bad debts written-off	552	221
Cost of inventories recognised as expense	54,412	57,641
Depreciation and amortisation:		
– owned property, plant and equipment	8,524	7,770
– leased property, plant and equipment	280	246
Deficits on revaluation		
– investment properties	1,743	257
– leasehold land and buildings	1,092	407
Provision for slow-moving inventories	1,446	–
Write off of inventories	–	878
Loss on disposal of		
– an investment property	362	–
– other property, plant and equipment	24	–
Operating lease charges on land and buildings	748	571
Research and development costs - current year expenditure	1,949	2,502
Staff costs (including retirement benefits schemes contributions and directors' remuneration)	15,008	13,312
Write off of property, plant and equipment	3,374	128

The cost of inventories recognised as expense includes approximately HK\$3,395,000 (2002: HK\$3,380,000) relating to research and development costs and provision for slow-moving inventories/write off of inventories, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 6. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and trust receipts loans wholly repayable within five years	2,172	2,016
Interest on bank loans not wholly repayable within five years	146	166
Interest on finance leases	79	53
	<b>2,397</b>	<b>2,235</b>

## 7. TAXATION

	Group	
	2003 HK\$'000	2002 HK\$'000
The tax (credit)/charge comprises:		
<b>Company and subsidiaries</b>		
Current tax – Hong Kong		
– Tax for the year	73	61
– Under provision in respect of prior years	61	–
	<b>134</b>	61
Current tax – overseas		
– Tax for the year	157	2,580
– Over provision in respect of prior years	(130)	–
	<b>27</b>	2,580
Deferred tax		
– Current year tax credit (note 28(a))	(1,350)	–
– Current year tax charge (note 28(b))	955	(230)
– Attributable to increase in tax rate in Hong Kong	5	–
	<b>(390)</b>	(230)
	<b>(229)</b>	2,411
<b>Share of taxation attributable to an associate</b>	<b>60</b>	–
	<b>(169)</b>	2,411



# Notes to the Financial Statements

For the year ended 31 December 2003

## 7. TAXATION (Continued)

Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. The profits tax rate has been increased with effect from the 2003 year of assessment.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax (credit)/expense can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
(Loss)/Profit before taxation	<b>(4,776)</b>	14,089
Tax calculated at the rates applicable to the jurisdiction concerned	<b>(836)</b>	2,254
Tax effect on expenses that are not deductible in determining taxable profit	<b>2,687</b>	678
Tax effect of non-taxable revenue	<b>(3,458)</b>	(1,460)
Tax effect of tax losses carried forward	<b>1,350</b>	–
Tax effect of utilisation of tax losses not previously recognised	<b>(960)</b>	230
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	<b>28</b>	–
Tax calculated at the rates applicable to other jurisdictions	<b>1,029</b>	709
Share of taxation attributable to an associate	<b>60</b>	–
Over provision in prior years	<b>(69)</b>	–
Actual tax (credit)/expenses	<b>(169)</b>	2,411

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 26).

Fuzhou Zheng Defu Toys Co., Ltd. (福州正德福玩具有限公司) ("Zheng Defu") and Fujian Kcare Gift toys Co., Ltd. (福建奇嘉禮品玩具有限公司) ("Fujian Kcare"), the Company's subsidiaries established and operating in the PRC, were exempt from 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 2003, PRC enterprise income tax has been provided at the reduced rate of 12% on the estimated assessable profit generated by Zheng Defu. No provision for PRC enterprise income tax has been made for Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian (福建莆田市僑雄輕工有限公司), Qiao Xiong Toys Co., Ltd. Putian Fujian (福建省莆田市僑雄玩具有限公司) and Fujian Kcare as these subsidiaries did not derive any assessable income during the year.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 8. DIVIDEND

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Interim – Nil (2002: 0.4 HK cents) per ordinary share	<u>–</u>	<u>8,815</u>

The amount of interim dividend for the year 2002 was calculated based on 2,203,636,000 shares in issue at the date of declaration of the interim dividend by the board of directors of the Company.

## 9. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2003 was approximately HK\$1,162,000 (2002: profit of HK\$13,765,000).

## 10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders for the year of HK\$4,605,000 (2002: profit of HK\$11,674,000) and the weighted average of 2,209,435,167 (2002: 2,203,290,247) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2003 is not presented because the impact of the exercise of the warrants is anti-dilutive. For the year ended 31 December 2002, the calculation of diluted earnings per share was based on the Group's profit attributable to shareholders for the year ended 31 December 2002 of HK\$11,674,000 and on the weighted average of 2,334,198,296 ordinary shares in issue. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2002 was based on the 2,203,290,247 ordinary shares in issue during the year 2002, as used in the basic earnings per share calculation, and the weighted average of 130,908,049 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year 2002, and on the assumption that the subdivision of 1 share of HK\$0.10 each into 5 shares of HK\$0.02 each has been completed on 1 January 2002.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 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:

	<b>Group</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	<b>Nil</b>	Nil
Other emoluments:		
– basic salaries, other allowances and benefits in kind	<b>3,568</b>	3,929
– retirement benefits schemes contributions	<b>336</b>	341
	<b>3,904</b>	4,270

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

	<b>Group</b>			
	<b>Executive directors</b>		<b>Independent non-executive directors</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
HK\$Nil – HK\$1,000,000	<b>1</b>	1	<b>2</b>	2
HK\$1,000,001– HK\$1,500,000	<b>2</b>	2	–	–
	<b>3</b>	3	<b>2</b>	2

There were no fees or other emoluments paid or payable to the independent non-executive directors for the year ended 31 December 2003 (2002: Nil).

No directors waived or agreed to waive any remuneration in respect of the year ended 31 December 2003 (2002: Nil).

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 (2002: Nil).

# Notes to the Financial Statements

For the year ended 31 December 2003

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

### (b) FIVE HIGHEST PAID INDIVIDUALS

Among the five highest paid individuals of the Group, three (2002: 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 (2002: two) highest paid individuals, both of which fell within the Nil to HK\$ 1,000,000 band, are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Basic salaries, other allowances and benefits in kind	<b>1,194</b>	1,200
Retirement benefits schemes contributions	<b>93</b>	75
	<hr/>	<hr/>
	<b>1,287</b>	1,275
	<hr/> <hr/>	<hr/> <hr/>

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 (2002: Nil).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 12. PROPERTY, PLANT AND EQUIPMENT

### Group

	Investment properties	Leasehold land and buildings	Leasehold improve- ments	Plant and machinery	Moulds	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation</b>								
At 1 January 2003	6,983	119,580	1,957	27,192	18,345	4,214	3,121	181,392
Additions	–	–	123	1,075	1,832	368	566	3,964
Disposals	(540)	–	–	–	–	–	(273)	(813)
Accumulated depreciation								
eliminated on revaluation	–	(3,690)	–	–	–	–	–	(3,690)
Write off	–	–	–	(9,610)	–	(1,066)	–	(10,676)
Revaluation deficits								
– charged to the income statement	(1,743)	(1,092)	–	–	–	–	–	(2,835)
– dealt with in the revaluation reserves	–	1,459	–	–	–	–	–	1,459
<b>At 31 December 2003</b>	<b>4,700</b>	<b>116,257</b>	<b>2,080</b>	<b>18,657</b>	<b>20,177</b>	<b>3,516</b>	<b>3,414</b>	<b>168,801</b>
<b>Accumulated depreciation and amortisation</b>								
At 1 January 2003	–	–	1,377	12,580	3,978	2,759	1,979	22,673
Charge for the year	–	3,690	207	2,219	2,025	405	258	8,804
Disposals	–	–	–	–	–	–	(18)	(18)
Write off	–	–	–	(6,424)	–	(878)	–	(7,302)
Eliminated on revaluation	–	(3,690)	–	–	–	–	–	(3,690)
<b>At 31 December 2003</b>	<b>–</b>	<b>–</b>	<b>1,584</b>	<b>8,375</b>	<b>6,003</b>	<b>2,286</b>	<b>2,219</b>	<b>20,467</b>
<b>Net book value</b>								
<b>At 31 December 2003</b>	<b>4,700</b>	<b>116,257</b>	<b>496</b>	<b>10,282</b>	<b>14,174</b>	<b>1,230</b>	<b>1,195</b>	<b>148,334</b>
At 31 December 2002	6,983	119,580	580	14,612	14,367	1,455	1,142	158,719
At cost	–	–	2,080	18,657	20,177	3,516	3,414	47,844
At professional valuation	4,700	116,257	–	–	–	–	–	120,957
	4,700	116,257	2,080	18,657	20,177	3,516	3,414	168,801

# Notes to the Financial Statements

For the year ended 31 December 2003

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Medium term leases held in Hong Kong	<b>8,831</b>	9,250
Medium term leases held outside Hong Kong	<b>106,069</b>	108,408
Long term leases held outside Hong Kong	<b>1,357</b>	1,922
	<b><u>116,257</u></b>	<u>119,580</u>

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 2003 at HK\$19,520,000 (2002: 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 2003 at HK\$96,737,000 (2002: 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\$43,699,000 (2002: HK\$45,830,000).

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Medium term leases held in Hong Kong	<b>400</b>	940
Long term leases held outside Hong Kong	<b>4,300</b>	6,043
	<b><u>4,700</u></b>	<u>6,983</u>

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The investment properties were valued on an open market basis by Castores at 31 December 2003. The investment properties held in Hong Kong include 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 in 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.

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\$8,034,000 and HK\$4,300,000 respectively, at 31 December 2003.

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 lawyers, 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.

At 31 December 2003, certain of the Group's leasehold land and buildings and investment properties with carrying values of approximately HK\$104,637,000 (2002: HK\$107,097,000) and Nil (2002: HK\$940,000) respectively were pledged to secure general banking facilities granted to the Group as detailed in note 21.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery, furniture, fixtures and equipment, and motor vehicles at 31 December 2003, amounted to HK\$615,000 (2002: Nil), HK\$51,000 (2002: Nil) and HK\$1,160,000 (2002: HK\$1,091,000) respectively.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 13. INTANGIBLE ASSETS

	<b>Goodwill</b> <i>HK\$'000</i>	<b>Group Production and distribution rights</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Gross amount</b>			
At 1 January 2003	1,345	–	1,345
Addition	–	5,000	5,000
<b>At 31 December 2003</b>	<b>1,345</b>	<b>5,000</b>	<b>6,345</b>
<b>Accumulated amortisation</b>			
At 1 January 2003	359	–	359
Amortisation for the year	269	333	602
<b>At 31 December 2003</b>	<b>628</b>	<b>333</b>	<b>961</b>
<b>Carrying value</b>			
<b>At 31 December 2003</b>	<b>717</b>	<b>4,667</b>	<b>5,384</b>
At 31 December 2002	986	–	986

## 14. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Investments – Unlisted shares, at cost	<b>125,261</b>	125,261
Amounts due from subsidiaries	<b>50,409</b>	49,709
Amounts due to subsidiaries	<b>675</b>	–

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



# Notes to the Financial Statements

For the year ended 31 December 2003

## 14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2003 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 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 trading of toys
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 Giftos Co., Ltd. 福建奇嘉禮品玩具 有限公司 (Note (d))	PRC	Renminbi ("RMB") 10,000,000	–	100%	Manufacture and trading of decorative gift items and toys

# Notes to the Financial Statements

For the year ended 31 December 2003

## 14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interests held by the Company		Principal activities
			Direct	Indirect	
Newgary Development Limited	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 (Note (e))	PRC	US\$850,000	–	100%	Trading of toys
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\$13,725 (2002: 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
Huge Profit Enterprises Limited	BVI	US\$10,000	–	100%	Investment holding

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

# Notes to the Financial Statements

For the year ended 31 December 2003

## 14. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in 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.
- (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.
- (d) Fujian Kcare Giftoys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.
- (e) Fuzhou Zheng Defu Toys 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 October 1992. Its registered capital is US\$850,000 which has been fully paid up.

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

	<b>Group</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Share of net assets	<u>400</u>	<u>—</u>
Amount due from an associate	<u>1,162</u>	<u>2,213</u>

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

# Notes to the Financial Statements

For the year ended 31 December 2003

## 15. INTEREST IN AN ASSOCIATE (Continued)

Particulars of the associate at 31 December 2003 are as follows:

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of interest held by the Group		Principal activities
			2003	2002	
Miracles For Fun (HK) Limited	Hong Kong	HK\$100 Ordinary shares	30	30	Trading of toys and decorative gift items

## 16. SHORT TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong listed equity securities, at market value	<u>11,043</u>	<u>10,090</u>

## 17. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	6,800	8,075
Work in progress	2,245	2,028
Finished goods	<u>4,994</u>	<u>1,810</u>
	<b>14,039</b>	11,913
Less: Provision for slow moving inventories	<u>(1,446)</u>	<u>–</u>
	<b><u>12,593</u></b>	<b><u>11,913</u></b>

Raw materials and work in progress of HK\$5,953,000 and HK\$1,646,000 respectively are stated at net realisable value. The other inventories are stated at cost. All the inventories at 31 December 2002 were stated at cost.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 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 2003, the ageing analysis of the trade and bills receivables, net of provision, is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>3,090</b>	3,509
31 days to 90 days	<b>2,965</b>	4,157
91 days to 180 days	<b>307</b>	356
Over 180 days	<b>3</b>	1,477
	<hr/> <b>6,365</b> <hr/>	<hr/> 9,499 <hr/>

## 19. CASH AND BANK BALANCES

Included in cash and bank balances is an amount of approximately HK\$38,055,000 (2002: HK\$25,283,000), 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.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 20. TRADE AND BILLS PAYABLES

At 31 December 2003, the ageing analysis of the trade and bills payables is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>687</b>	1,120
31 days to 90 days	<b>5,864</b>	2,076
91 days to 180 days	<b>1,340</b>	279
181 days to 360 days	<b>74</b>	57
Over 360 days	<b>32</b>	508
	<hr/> <b>7,997</b> <hr/>	<hr/> 4,040 <hr/>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 21. BANK AND TRUST RECEIPT LOANS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest bearing bank loans (secured)	30,261	30,044
Interest bearing trust receipt loans (secured)	–	2,474
Interest bearing trust receipt loans (unsecured)	2,258	–
	<u>32,519</u>	<u>32,518</u>
Bank loans repayable:		
Within one year or on demand	17,883	17,260
In the second year	9,769	406
In the third to fifth years, inclusive	1,871	10,667
Over five years	738	1,711
Trust receipt loans repayable within one year or on demand	2,258	2,474
	<u>32,519</u>	<u>32,518</u>
Less: Current portion due within one year included under current liabilities	<u>(20,141)</u>	<u>(19,734)</u>
Non-current portion included under non-current liabilities	<u>12,378</u>	<u>12,784</u>

At 31 December 2003, 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\$104,637,000 (2002: HK\$107,097,000) and Nil (2002: HK\$940,000), respectively (note 12);
- (ii) corporate guarantees executed by the Company to the extent of HK\$99 million (2002: HK\$79 million);
- (iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$103 million (2002: HK\$103 million); and
- (iv) cross corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$33 million (2002: HK\$23 million).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 22. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	735	338	640	316
In the second year	663	338	574	279
In the third to fifth years inclusive	245	417	210	306
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	1,643	1,093	1,424	901
	<hr/>	<hr/>	<hr/>	<hr/>
Future finance charges	(219)	(192)		
	<hr/>	<hr/>		
Total net finance lease payables	1,424	901		
	<hr/>	<hr/>		
Less: Current portion due within one year included under current liabilities	(640)	(316)		
	<hr/>	<hr/>		
Non-current portion included under non-current liabilities	784	585		
	<hr/>	<hr/>		

## 23. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
<b>Authorised:</b>			
At 1 January 2002, ordinary shares of HK\$0.10 each		1,000,000,000	100,000
Subdivision of shares	(b)	4,000,000,000	—
		<hr/>	<hr/>
<b>At 31 December 2002, 1 January 2003 and 31 December 2003, ordinary shares of HK\$0.02 each</b>		<b>5,000,000,000</b>	<b>100,000</b>
		<hr/>	<hr/>



# Notes to the Financial Statements

For the year ended 31 December 2003

## 23. SHARE CAPITAL (Continued)

	Notes	Number of shares	Amount HK\$'000
<b>Issued and fully paid:</b>			
At 1 January 2002, ordinary shares of HK\$0.10 each		440,287,200	44,029
Exercise of warrants before subdivision of shares	(a)	440,000	44
Subdivision	(b)	1,762,908,800	–
Exercise of warrants after subdivision of shares	(c)	<u>300,000</u>	<u>6</u>
At 31 December 2002 and at 1 January 2003, ordinary shares of HK\$0.02 each		2,203,936,000	44,079
Exercise of warrants	(d)	<u>9,884,000</u>	<u>198</u>
<b>At 31 December 2003, ordinary shares of HK\$0.02 each</b>		<b><u>2,213,820,000</u></b>	<b><u>44,277</u></b>

(a) 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.

(b) 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.

(c) 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.

(d) During the period from 1 January 2003 to 7 October 2003 (the last day for exercise of the warrants), 1,976,800 warrants were exercised for 9,884,000 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\$1,384,000, before issue expenses, had been received by the Company.

# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 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 entitled the holders thereof to subscribe for new ordinary shares in the Company of HK\$0.10 each at an initial subscription price of HK\$0.70 per share, subject to adjustments, at any time up to 7 October 2003.

During the 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 (the 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.

During the period from 1 January 2003 to 7 October 2003 (last day for exercise of the warrants), 1,976,800 warrants were exercised and resulted in issue of 9,884,000 new ordinary Subdivided Shares in the Company at a subscription price of HK\$0.14 for a consideration of HK\$1,384,000. The excess of the cash consideration received over the normal value of the shares issued, amounting to HK\$1,186,000 had been credited to the share premium account. After 7 October 2003, all unexercised warrants expired and there were no more warrants outstanding as at 31 December 2003.

## 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 15 and 16.

During the year, no share options had been granted under the share option scheme (2002: Nil).

As at 31 December 2003, no options had been granted or outstanding under the share option scheme operated by the Company.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 26. RESERVES

### Group

	Share premium <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i> <i>(note (a))</i>	Capital reserve <i>HK\$'000</i> <i>(note (b))</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Assets revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002								
As previously reported	172	749	702	(2,857)	378	76,739	50,954	126,837
Adjustment on adoption of SSAP 12 (Revised)	–	–	–	–	–	(16,881)	–	(16,881)
As restated	172	749	702	(2,857)	378	59,858	50,954	109,956
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 and at 1 January 2003	472	976	702	(2,857)	338	61,713	53,586	114,930
Issue of shares	1,186	–	–	–	–	–	–	1,186
Released on disposal	–	–	–	–	(58)	–	–	(58)
Revaluation surplus	–	–	–	–	–	1,459	–	1,459
Deferred tax liabilities arising on revaluation of properties	–	–	–	–	–	(407)	–	(407)
Loss attributable to shareholders	–	–	–	–	–	–	(4,605)	(4,605)
<b>At 31 December 2003</b>	<b>1,658</b>	<b>976</b>	<b>702</b>	<b>(2,857)</b>	<b>280</b>	<b>62,765</b>	<b>48,981</b>	<b>112,505</b>
Company and subsidiaries	1,658	976	702	(2,857)	280	62,765	48,581	112,105
Associate	–	–	–	–	–	–	400	400
	1,658	976	702	(2,857)	280	62,765	48,981	112,505

# Notes to the Financial Statements

For the year ended 31 December 2003

## 26. RESERVES (Continued)

### Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(note (b))</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002 and at 1 January 2003	472	125,161	5,001	130,634
Issue of shares	1,186	–	–	1,186
Loss attributable to shareholders	–	–	(1,162)	(1,162)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2003</b>	<b><u>1,658</u></b>	<b><u>125,161</u></b>	<b><u>3,839</u></b>	<b><u>130,658</u></b>

- (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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31 December 2003 consisted of the aggregate of the share premium, capital reserve and retained profits totalling approximately HK\$ 130,658,000 (2002: HK\$ 130,634,000).

# Notes to the Financial Statements

For the year ended 31 December 2003

## 27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### MAJOR NON-CASH TRANSACTION

During the year, the Group entered into a finance lease arrangement in respect of acquisition of certain property, plant and equipment with a total capital value at the inception of the lease of HK\$1,066,000.

## 28. DEFERRED TAXATION

- (a) The Group's deferred tax assets at 31 December 2003 of HK\$1,350,000 (2002: Nil) represented the tax effect of temporary differences attributable to unused tax losses.
- (b) The following are the major deferred tax liabilities recognised in the consolidated balance sheet as at 31 December 2003 and the movements during the current and prior periods:

	<b>Accelerated depreciation allowances</b> <i>HK\$</i>	<b>Revaluation of properties</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
Balance at 1 January 2002			
– As previously reported	554	–	554
– Adjustment on adoption of SSAP 12 (Revised)	–	16,881	16,881
– As restated	554	16,881	17,435
Credited to income statement for the year	(230)	–	(230)
Balance at 31 December 2002 and at 1 January 2003	324	16,881	17,205
Charged to income statement for the year	955	–	955
Charged to equity	–	374	374
Effect of change in tax rate			
– charged to income statement	5	–	5
– charged to equity	–	33	33
<b>Balance at 31 December 2003</b>	<b>1,284</b>	<b>17,288</b>	<b>18,572</b>

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK\$5,308,000 (2002: HK\$9,631,000) and HK\$3,853,000 (2002: HK\$2,692,000) respectively due to the unpredictability of future profit streams. The tax losses will not expire under current tax legislation.

Temporary differences arising in connection with interest in an associate are insignificant.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 29. 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:

<b>Nature of transaction</b>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Sales to an associate	<b>9,333</b>	1,585
Sales of moulds to an associate	<b>—</b>	568
	<u>          </u>	<u>          </u>

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.

## 30. OPERATING LEASE ARRANGEMENTS

### (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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Within one year	<b>296</b>	305
	<u>          </u>	<u>          </u>

# Notes to the Financial Statements

For the year ended 31 December 2003

## 30. OPERATING LEASE ARRANGEMENTS (Continued)

### (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 three years.

At 31 December 2003, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Within one year	<b>373</b>	580
In the second to fifth years, inclusive	<b>66</b>	393
	<b>439</b>	973

(c) At 31 December 2003, the Company had no operating lease commitments.

## 31. CAPITAL COMMITMENTS

(a) On 17 December 2003, Huge Profit Enterprises Limited, a wholly-owned subsidiary of the Company entered into an agreement with certain independent third parties in relation to the establishment of a sino-foreign equity joint venture named Sangyang Spandex Co. Ltd. 桑陽氨綸有限公司 ("Sangyang Spandex"). Sangyang Spandex was established in the PRC with a tenure of 20 years commencing from the date of issuance of its business licence on 13 January 2004. The principal activities of Sangyang Spandex are the production, research and development and sale of Spandex in the PRC. The joint venture partners include Sinochem International Company Limited ("Sinochem International"), Sangyang Textile Co. Ltd. ("Sangyang Textile") and Harvest City Enterprises Limited ("Harvest City").

The total investment amount and the registered capital of Sangyang Spandex is US\$29.4 million (equivalent to approximately HK\$229 million) and US\$12 million (equivalent to approximately HK\$94 million), respectively. Each of the Group, Sinochem International, Sangyang Textile and Harvest City owns 30%, 25%, 23% and 22% of the equity interest in Sangyang Spandex, respectively and will contribute US\$3.6 million (equivalent to approximately HK\$28 million), US\$3 million (equivalent to approximately HK\$23 million), US\$2.76 million (equivalent to approximately HK\$22 million) and US\$2.64 million (equivalent to approximately HK\$21 million) to Sangyang Spandex, respectively on or before 12 March 2004. The Directors currently intend to fund the Group's capital injection to Sangyang Spandex by the Group's internal resources. Details about the establishment of the joint venture are set out in the circular dated 9 January 2004 issued by the Company.

# Notes to the Financial Statements

For the year ended 31 December 2003

## 31. CAPITAL COMMITMENTS (Continued)

At 31 December 2003, the Group had outstanding capital commitments in respect of the capital injection to Sangyang Spandex of approximately HK\$27,720,000 (2002: Nil) which have been contracted but not provided for in the financial statements.

- (b) The Company did not have any significant capital commitments as at the balance sheet date (2002: Nil).

## 32. PLEDGE OF ASSETS

At 31 December 2003, the Group's land and buildings and investment properties with aggregate carrying values of approximately HK\$104,637,000 (2002: HK\$107,097,000) and Nil (2002: HK\$940,000) respectively were pledged to banks to secure the Group's bank loans and trust receipt loans.

## 33. CONTINGENT LIABILITIES

At 31 December 2003, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>99,000</u>	<u>79,000</u>

The Group did not have any significant contingent liabilities as at balance sheet date (2002: Nil).



# Notes to the Financial Statements

*For the year ended 31 December 2003*

## 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\$860,000 (2002: HK\$859,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. As at 31 December 2003 and 2002, 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 2003 in respect of the retirement of its employees.

## 35. POST BALANCE SHEET EVENT

- (a) Subsequent to the balance sheet date, the Group disposed of certain investment properties situated outside Hong Kong with an aggregate carrying value of HK\$4,300,000 as at 31 December 2003 and certain leasehold land and buildings situated outside Hong Kong with an aggregate carrying value of HK\$1,357,000 as at 31 December 2003 to independent third parties at a total consideration of HK\$5,652,000.
- (b) On 27 April 2004, Huge Profit Enterprises Limited entered into a supplementary agreement with its joint venture partners to reschedule of their respective capital contributions to Sangyang Spandex from 12 March 2004 to 12 July 2004.

## 36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 19 to 66 were approved by the board of directors on 29 April 2004.