Notes to Financial Statements

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1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year, the Group was involved in the manufacturing and trading of hard and stuffed toys.

In the opinion of the directors, the ultimate holding company of the Company is Great Victory International Inc. ("GVII"), a company incorporated in the British Virgin Islands.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of eight years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and 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 any 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

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

Leasehold land and buildings	Over the lease terms
Leasehold improvements	10%
Furniture, fixtures and office equipment	15% – 20%
Motor vehicles	20%
Plant and machinery	10% – 15%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Land use rights

Rights to the use of sites are stated at valuation and amortised on the straight-line basis over the terms of the land use rights or the initial terms of the entity agreement, whichever is the shorter, starting from the date the related construction is completed and ready for its intended use.

The Group intends to apply for an extension of the operating tenure of its subsidiary in Mainland China upon its expiry, from 15 years to 50 years. As advised by the legal advisors to the Group, the directors believe that such application will normally be granted upon application. Accordingly, the land use rights of the subsidiary are amortised on the straight-line basis to write off their valuation over 50 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. When the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) mould income from the manufacturing of moulds for customers, upon the completion of the production; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension schemes

The Group operates defined contribution retirement benefits schemes in Hong Kong, including a Mandatory Provident Fund Scheme, for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the schemes, with the exception of the Mandatory Provident Fund Scheme, prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of any forfeited contributions. In respect of the Mandatory Provident Fund Scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

The staff of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a specific amount for the employees in Mainland China, pursuant to the local municipal government regulations. The contributions are charged to the profit and loss account, as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their 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 the other business segments. Summary details of the business segments are as follows:

(a) the hard toys segment manufactures and trades hard toy products;

(b) the stuffed toys segment manufactures and trades stuffed toy products; and

(c) the corporate segment comprises general corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the Group's markets and customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue and profit information regarding business segments for the years ended 31 December 2004 and 2003, and certain asset and liability information regarding business segments as at 31 December 2004 and 2003.

Group

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**391,160**	425,766	**58,483**	53,303	**-**	–	**-**	–	**449,643**	479,069
Other revenue from external sources	**3,060**	3,486	**83**	522	**790**	–	**-**	–	**3,933**	4,008
Intersegment other revenue	**1,231**	1,231	**-**	–	**-**	–	**(1,231)**	(1,231)	**-**	–
Total	**395,451**	430,483	**58,566**	53,825	**790**	–	**(1,231)**	(1,231)	**453,576**	483,077
Segment results	**19,031**	16,407	**895**	2,319	**(1,429)**	(146)	**-**	–	**18,497**	18,580
Interest income									**459**	605
Finance costs									**(490)**	(263)
Share of profits and losses of associates									**(307)**	675
Amortisation of goodwill on acquisition of associates									**(805)**	(671)
Profit before tax									**17,354**	18,926
Tax									**(5,053)**	631
Net profit from ordinary activities attributable to shareholders									**12,301**	19,557
Segment assets	**322,973**	307,571	**40,368**	19,260	**7,310**	11,363	**-**	–	**370,651**	338,194
Segment liabilities	**106,760**	88,034	**8,126**	2,392	**760**	656	**-**	–	**115,646**	91,082

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Capital expenditure	**12,309**	69,403	**–**	–	**–**	–	**–**	–	**12,309**	69,403
Amortisation of goodwill on acquisition of associates	**–**	–	**–**	–	**805**	671	**–**	–	**805**	671
Depreciation	**9,017**	6,352	**247**	165	**–**	–	**–**	–	**9,264**	6,517
Deficit on revaluation of leasehold land and buildings, net	**–**	73	**–**	–	**–**	–	**–**	–	**–**	73
Surplus on revaluation of land use rights	**–**	(250)	**–**	–	**–**	–	**–**	–	**–**	(250)
Other non-cash expenses	**6,807**	992	**1,275**	258	**–**	–	**–**	–	**8,082**	1,250

(b) Geographical segments

The following table presents revenue information regarding geographical segments for the years ended 31 December 2004 and 2003, and asset and expenditure information for the Group's geographical segments as at 31 December 2004 and 2003.

Group

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**376,286**	393,866	**57,166**	71,201	**16,191**	14,002	**–**	–	**449,643**	479,069
Other revenue	**944**	1,905	**724**	1,051	**1,475**	1,052	**790**	–	**3,933**	4,008
Total	**377,230**	395,771	**57,890**	72,252	**17,666**	15,054	**790**	–	**453,576**	483,077
Other segment information:										
Segment assets	**–**	–	**–**	–	**363,341**	326,831	**7,310**	11,363	**370,651**	338,194
Capital expenditure	**–**	–	**–**	–	**12,309**	69,403	**–**	–	**12,309**	69,403

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5. TURNOVER, OTHER REVENUE AND GAIN

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

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

	2004 HK$'000	2003 HK$'000
Turnover		
Sale of goods:		
Hard toys	**391,160**	425,766
Stuffed toys	**58,483**	53,303
	449,643	479,069
Other revenue and gain		
Mould income	**1,735**	2,956
Interest income	**459**	605
Sundry income	**1,408**	1,052
Dividend income from listed investments	**80**	–
Gain on disposal of short term listed investments	**710**	–
	4,392	4,613

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Note	2004 HK$'000	2003 HK$'000
Cost of inventories sold		**376,363**	408,048
Provision against obsolete inventories		**6,743**	1,250
Depreciation*	*14*	**9,264**	6,517
Minimum lease payments under operating leases in respect of land and buildings		**2,010**	3,141
Auditors' remuneration:			
Provision for the year		**770**	650
Underprovision in the prior year		**50**	–
		820	650
Staff costs (excluding directors' remuneration – *note 8*):**			
Wages and salaries		**64,971**	88,559
Other staff benefits		**1,386**	939
Gross pension scheme contributions		**465**	434
Less: Forfeited contributions***		**–**	–
Pension scheme contributions, net		**465**	434
Total staff costs		**66,822**	89,932
Loss on disposal of fixed assets, net****		**262**	4
Revaluation surplus of fixed assets****		**–**	(64)
Foreign exchange losses/(gains), net		**369**	(841)

* Depreciation charge of HK$6,863,000 (2003: HK$4,521,000) was also included in "Cost of inventories sold".

** Staff costs of HK$44,756,000 (2003: HK$67,711,000) were also included in "Cost of inventories sold".

*** At 31 December 2004, the Group had no material forfeited contributions available to reduce its contribution to the pension scheme in future years (2003: Nil).

**** These items are included in "Other operating income/(expenses)" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	HK$'000
Interest expense on bank loans, bank overdrafts and other loans wholly repayable within five years	**490**	263

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Fees	**150**	100
Other emoluments:		
Salaries, benefits in kind and other allowances	**4,403**	4,666
Discretionary bonuses	**–**	1,520
Pension scheme contributions	**112**	120
	4,665	6,406

The directors' fees of HK$150,000 (2003: HK$100,000) are payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

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

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**6**	4
HK$1,000,001 – HK$1,500,000	**–**	2
HK$2,000,001 – HK$2,500,000	**1**	1
	7	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2003: Nil) non-director, highest paid employee for the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**658**	–
Pension scheme contributions	**18**	–
	676	–

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

The provision for income tax of a subsidiary operating in Mainland China has been calculated at the applicable rate of tax prevailing in the areas in which that subsidiary operates, based on existing legislation, interpretations and practices in respect thereof, during the year.

	Group	
	2004	2003
	HK$'000	HK$'000
Current – Hong Kong	**39**	160
Current – Mainland China	**667**	726
Underprovision/(overprovision) in prior years – Hong Kong	**5,894**	(3,551)
Deferred tax *(note 24)*	**(1,547)**	2,034
Total tax charge/(credit) for the year	**5,053**	(631)

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10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	11,843		5,511		17,354	
Tax at the statutory tax rate	2,073	17.5	1,322	24.0	3,395	19.6
Lower tax rate for specific provinces or local authority	–	–	(661)	(12.0)	(661)	(3.8)
Adjustments in respect of current tax of previous periods	5,894	49.8	–	–	5,894	34.0
Temporary differences not recognised in previous year	(3,851)	(32.5)	–	–	(3,851)	(22.2)
Income not subject to tax	(45)	(0.4)	–	–	(45)	(0.3)
Expenses not deductible for tax	315	2.6	6	0.1	321	1.8
Tax charge at the Group's effective rate	4,386	37.0	667	12.1	5,053	29.1

Group – 2003

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	12,902		6,024		18,926	
Tax at the statutory tax rate	2,258	17.5	1,446	24.0	3,704	19.6
Lower tax rate for specific provinces or local authority	–	–	(723)	(12.0)	(723)	(3.8)
Effect on opening deferred tax of increase in rate	221	1.7	–	–	221	1.2
Adjustments in respect of current tax of previous periods	(3,551)	(27.5)	–	–	(3,551)	(18.8)
Income not subject to tax	(339)	(2.6)	–	–	(339)	(1.8)
Expenses not deductible for tax	54	0.4	3	0.1	57	0.3
Tax charge/(credit) at the Group's effective rate	(1,357)	(10.5)	726	12.1	(631)	(3.3)

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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK$3,760,000 (2003: HK$6,171,000) *(note 26)*.

12. DIVIDEND

	2004	2003
	HK$'000	HK$'000
Interim dividend – HK1 cent (2003: HK1.2 cents) per ordinary share	**4,480**	5,376

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK$12,301,000 (2003: HK$19,557,000) and 448,002,000 (2003: weighted average of 426,961,000) ordinary shares in issue during the year.

Since the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the years ended 31 December 2004 and 2003, there were no dilutive potential ordinary shares outstanding during the years and therefore no diluted earnings per share amount was presented for both years.

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14. FIXED ASSETS

Group

	Land use rights HK$'000	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:								
At beginning of year	21,014	47,843	853	8,979	6,469	53,989	55,304	194,451
Additions	–	–	201	3,573	124	2,692	8,776	15,366
Disposals	–	–	–	(2,423)	(118)	(876)	–	(3,417)
Reclassification	–	62,150	–	1,312	–	618	(64,080)	–
Exchange realignment	9	38	–	11	7	73	–	138
At 31 December 2004	**21,023**	**110,031**	**1,054**	**11,452**	**6,482**	**56,496**	**–**	**206,538**
Analysis of cost or valuation:								
At cost	**–**	**62,150**	**1,054**	**11,452**	**6,482**	**56,496**	**–**	**137,634**
At 2003 valuation	**21,023**	**47,881**	**–**	**–**	**–**	**–**	**–**	**68,904**
	21,023	**110,031**	**1,054**	**11,452**	**6,482**	**56,496**	**–**	**206,538**
Accumulated depreciation:								
At beginning of year	–	–	170	5,124	4,728	24,287	–	34,309
Provided during the year	483	2,484	186	1,606	446	4,059	–	9,264
Disposals	–	–	–	(2,337)	(106)	(712)	–	(3,155)
Exchange realignment	1	12	–	3	4	29	–	49
At 31 December 2004	**484**	**2,496**	**356**	**4,396**	**5,072**	**27,663**	**–**	**40,467**
Net book value:								
At 31 December 2004	**20,539**	**107,535**	**698**	**7,056**	**1,410**	**28,833**	**–**	**166,071**
At 31 December 2003	21,014	47,843	683	3,855	1,741	29,702	55,304	160,142

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS (continued)

The Group's land use rights included above are rights to the use of sites situated in Mainland China. They are stated at valuation and are held under medium term leases.

The Group's leasehold land and buildings included above are held under the following lease terms:

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
At cost:			
Medium term leases	–	62,150	62,150
At valuation:			
Long term leases	7,445	–	7,445
Medium term leases	741	37,199	37,940
	8,186	99,349	107,535

Certain of the Group's leasehold land and buildings and land use rights were revalued at 31 December 2003 by Castores Magi Surveyors Limited, independent professionally qualified valuers, based on their existing use. No revaluations of the Group's leasehold land and buildings and land use rights have been carried out in 2004 as the directors consider that the carrying amounts of the Group's leasehold land and buildings and land use rights do not differ materially from that which would otherwise be determined by valuation on the basis adopted last year at the balance sheet date.

Had the Group's leasehold land and buildings in Hong Kong been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$8,107,000 (2003: HK$8,242,000). Had the Group's leasehold land and buildings and land use rights in Mainland China been carried at historical cost less accumulated depreciation/amortisation and impairment losses, their carrying amounts would have been HK$82,253,000 (2003: HK$22,023,000) and HK$10,301,000 (2003: HK$10,532,000), respectively.

15. INTERESTS IN SUBSIDIARIES

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	156,726	156,726
Due from subsidiaries	54,390	38,952
	211,116	195,678

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

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100	Provision of agency services
Zhongshan Sewco Toys & Novelty Limited#	Mainland China	Paid-up registered HK$98,015,593	–	100	Manufacturing of toy products
Huge Returns Enterprises Inc.	British Virgin Islands	Ordinary US$1	–	100	Investment holding

Wholly-foreign-owned enterprise registered in Mainland China.

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16. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**368**	675
Goodwill on acquisition	**6,440**	6,440
Less: Goodwill amortisation	**(1,476)**	(671)
Advance to an associate	**1,959**	–
	7,291	6,444

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group Indirect	Principal activities
Jasman Asia Limited	Corporate	Hong Kong	20%	Design and trading of toys
Jasman Inc.	Corporate	USA	20%	Trading of toys

The above associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The advance was made to an associate, Jasman Asia Limited, which is unsecured, charged at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 2% per annum and has no fixed terms of repayment.

17. LOAN RECEIVABLE

The balance represents an advance made by a subsidiary of the Company to an employee of the Group. The loan interest rate is charged at 2% per annum (2003: Hong Kong dollar prime rate minus 2.25% per annum). The outstanding loan balance is repayable by monthly installments of HK$15,000 by the borrower.

The installments receivable in the next 12 months are included under current assets and the balance of HK$1,115,000 is included under non-current assets as at 31 December 2004.

18. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**49,003**	25,655
Work in progress	**32,971**	17,602
Finished goods	**18,537**	15,943
	100,511	59,200

The carrying amount of inventories carried at net realisable value included in the above balance was HK$3,734,000 (2003: Nil).

19. TRADE RECEIVABLES

An aged analysis of the trade receivables from the sale of goods at the balance sheet date, based on invoice date, is as follows:

	Group 2004 HK$'000	2003 HK$'000
Current to 30 days	**44,282**	27,735
31 to 90 days	**15,789**	8,887
	60,071	36,622

The Group normally allows credit terms for established customers ranging from 14 to 60 days.

20. DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company of the Group and the Company are as follows:

	31 December 2004 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2004 HK$'000
Sewco Toys (China) Limited	**–**	14	14

Notes to Financial Statements

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20. DUE FROM A RELATED COMPANY (continued)

Mr. Cheung Po Lun ("Mr. Cheung"), a director of the Company, has beneficial interests in the above company. The amount due from the above related company is unsecured, interest-free and has no fixed terms of repayment.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**11,406**	16,789	**277**	983
Time deposits	**8,056**	39,560	**8,056**	23,470
	19,462	56,349	**8,333**	24,453

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$5,410,278 (2003: HK$446,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. TRADE PAYABLES

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

	Group	
	2004	2003
	HK$'000	HK$'000
Current to 30 days	**48,443**	26,912
31 to 90 days	**28,370**	15,711
Over 90 days	**104**	129
	76,917	42,752

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23. INTEREST-BEARING BANK LOANS

	Group	
	2004	2003
	HK$'000	HK$'000
Unsecured bank loans repayable:		
Within one year or on demand	**5,960**	4,457
In the second year	**5,960**	5,943
In the third to fifth years, inclusive	**3,610**	9,600
	15,530	20,000
Portion classified as current liabilities	**(5,960)**	(4,457)
Non-current portion	**9,570**	15,543

24. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Accelerated tax depreciation HK$'000	**Revaluation of properties HK$'000**	**Total HK$'000**
At 1 January 2003	2,356	1,520	3,876
Deferred tax charged to profit and loss account during the year *(note 10)*	2,034	–	2,034
Deferred tax charged to revaluation reserve of HK$110,000 due to the effect of a change in tax rate *(note 26)*	–	110	110
At 31 December 2003 and 1 January 2004	4,390	1,630	6,020
Deferred tax charged to profit and loss account during the year *(note 10)*	(1,487)	(60)	(1,547)
At 31 December 2004	**2,903**	**1,570**	**4,473**

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

There is no unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

Notes to Financial Statements

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25. SHARE CAPITAL

Shares

	Company 2004 HK$'000	Company 2003 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
448,002,000 ordinary shares of HK$0.10 each	**44,801**	44,801

A summary of the movements of the Company's ordinary share capital is as follows:

	Number of shares	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Balance at 1 January 2003	400,002,000	40,001	–	40,001
Issue of shares	48,000,000	4,800	22,560	27,360
Share issue expenses	–	–	(1,120)	(1,120)
Balance at 31 December 2003 and 2004	**448,002,000**	**44,801**	**21,440**	**66,241**

On 28 May 2003, an agreement was entered into by GVII, the controlling shareholder of the Company, and CLSA Limited, the placing agent appointed by GVII for a placement (the "Placing") of 48,000,000 then existing ordinary shares of HK$0.1 each in the Company (the "Placing Shares") at a price of HK$0.57 per share (the "Placing Price"). Pursuant to the said agreement, CLSA Limited has agreed to unconditionally place the Placing Shares to six or more independent professional and institutional investors (the "Placees") on a fully underwritten basis. The Placing Shares were fully placed by CLSA Limited to the Placees on 2 June 2003. CLSA Limited and the Placees (and their ultimate beneficial owners) are independent of and not connected with any of the directors, chief executive, or substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them.

25. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive and non-executive directors, any discretionary object of a grantee which is a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholder of the Company on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 40,000,000 shares, representing 10% of the ordinary shares of the Company in issue on 6 March 2002 (the commencement date of dealings of the Company's shares on the Stock Exchange) and approximately 8.93% of the issued share capital of the Company as at the date of this annual report. The Company may seek approval of its shareholders in a general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and under any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12-month period up to and including the date of such further grant in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of such grant, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted and expires not later than the 10th anniversary of that date. There is no specific requirement that an option must be held for any minimum period before it can be exercised.

Notes to Financial Statements

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25. SHARE CAPITAL (continued)

Share options (continued)

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options which must be a trading day; and

(ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer.

No share options have been granted and outstanding under the Scheme during the year and as at balance sheet date.

Warrants

On 5 February 2002, warrants were authorised to be issued by the Company by way of a bonus issue to the successful subscribers and placees of the Company's shares in connection with the Company's initial public offering, resulting in 80,000,000 warrants being issued on 6 March 2002. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.70 per share, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

No warrants were exercised during the year. As at 31 December 2004, the Company had 79,998,000 (2003: 79,998,000) warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 79,998,000 additional shares of HK$0.10 each, for gross proceeds of approximately HK$55,999,000.

26. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus *(Note a)* HK$'000	Fixed asset revaluation reserve HK$'000	Statutory reserve fund *(Note c)* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003		–	–	27,591	1,797	342	137,277	167,007
Issue of shares	25	22,560	–	–	–	–	–	22,560
Share issue expenses	25	(1,120)	–	–	–	–	–	(1,120)
Exchange realignment		–	–	–	–	(320)	–	(320)
Surplus on revaluation		–	–	113	–	–	–	113
Revaluation reserve released		–	–	(670)	–	–	670	–
Appropriation to statutory reserve fund		–	–	–	795	–	(795)	–
Net profit for the year		–	–	–	–	–	19,557	19,557
Interim 2003 dividend	12	–	–	–	–	–	(5,376)	(5,376)
Deferred tax	24	–	–	(110)	–	–	–	(110)
At 31 December 2003 and at 1 January 2004		21,440	–	26,924	2,592	22	151,333	202,311
Exchange realignment		–	–	–	–	72	–	72
Revaluation reserve released		–	–	(685)	–	–	685	–
Appropriation to statutory reserve fund		–	–	–	485	–	(485)	–
Net profit for the year		–	–	–	–	–	12,301	12,301
Interim 2004 dividend	12	–	–	–	–	–	(4,480)	(4,480)
At 31 December 2004		**21,440**	**–**	**26,239**	**3,077**	**94**	**159,354**	**210,204**
Reserves retained by:								
Company and subsidiaries		**21,440**	**–**	**26,239**	**3,077**	**94**	**159,657**	**210,507**
Associates		**–**	**–**	**–**	**–**	**–**	**(303)**	**(303)**
At 31 December 2004		**21,440**	**–**	**26,239**	**3,077**	**94**	**159,354**	**210,204**
Company and subsidiaries		21,440	–	26,924	2,592	22	151,329	202,307
Associates		–	–	–	–	–	4	4
At 31 December 2003		**21,440**	**–**	**26,924**	**2,592**	**22**	**151,333**	**202,311**

Notes to Financial Statements

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26. RESERVES (continued)

Company

	Note	Share premium account HK$'000	Contributed surplus *(Note b)* HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003		–	152,762	570	153,332
Issue of shares		22,560	–	–	22,560
Share issue expenses		(1,120)	–	–	(1,120)
Net profit for the year		–	–	6,171	6,171
Interim 2003 dividend	*12*	–	–	(5,376)	(5,376)
At 31 December 2003 and 1 January 2004		21,440	152,762	1,365	175,567
Net profit for the year		–	–	3,760	3,760
Interim 2004 dividend	*12*	–	–	(4,480)	(4,480)
At 31 December 2004		**21,440**	**152,762**	**645**	**174,847**

Notes:

(a) The contributed surplus of the Group at 1 January 2003 represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the reorganisation of the Group and the nominal value of the issued share capital of the Company issued in exchange therefor.

(b) The contributed surplus of the Company arose as a result of the reorganisation of the Group and represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the reorganisation over the nominal value of the issued share capital of the Company issued in exchange therefor.

Under the Bermuda Companies Act 1981, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

(c) In accordance with the relevant regulations applicable to wholly-foreign-owned enterprises in Mainland China, the Company's subsidiary in Mainland China is required to appropriate an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

27. CONTINGENT LIABILITIES

(a) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$613,000 as at 31 December 2004 (2003: HK$590,000), as further explained in note 3 to the financial statements. The contingent liability has arisen at the balance sheet date a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(b) At the balance sheet date, the Company had provided corporate guarantees of HK$116,030,000 (2003: HK$115,500,000) to certain banks in respect of banking facilities granted to its subsidiaries. As at 31 December 2004, such banking facilities were utilised by the subsidiaries up to an aggregate amount of HK$15,530,000 (2003: HK$20,000,000).

(c) At the balance sheet date, the Company had provided corporate guarantees of HK$500,000 (2003: HK$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 31 December 2004, such banking facilities were utilised by the associate up to an amount of HK$463,000 (2003: HK$500,000).

28. OPERATING LEASE ARRANGEMENTS

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**480**	422
In the second to fifth years, inclusive	**216**	204
	696	626

At the balance sheet date, the Company had no operating lease arrangements.

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31 December 2004

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	2004	2003
	HK$'000	HK$'000
Capital commitments:		
Contracted for	**4,380**	4,363
Authorised, but not contracted for	**–**	244
	4,380	4,607

(b) Commitments under forward foreign exchange contracts

	2004	2003
	HK$'000	HK$'000
Forward foreign exchange contracts	**–**	72,540

At the balance sheet date, the Company had no significant commitments.

30. RELATED PARTY TRANSACTIONS

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

		2004	2003
	Notes	**HK$'000**	HK$'000
Rental expenses paid to a director	*(i)*	**204**	204
Rental expenses paid to a director's associate	*(ii)*	**432**	432

30. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The rental expenses were paid to Ms. Cheung Man, Catherine, a director of the Company, for leasing a property as staff quarters by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

(ii) The rental expenses were paid to Ms. Fung Wai Chi, Philomena, the wife of Mr. Cheung, for leasing a property as staff quarters by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

Details of the Group's balances with related companies as at the balance sheet date are included in note 20 to the financial statements.

The above transactions also constitute continuing connected transactions as defined in chapter 14A of the Listing Rules.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2005.