

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 13. 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

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 18 to 66 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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.

(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 financial statements also include the Group's share of post-acquisition results and reserves of its associates and jointly controlled entities.

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 the disposal of a subsidiary represents the difference between the proceeds from the sale and the Group's share of its net assets together with any unamortised goodwill which was not previously charged to the consolidated income statement and any related accumulated foreign currency translation reserve.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

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.

(d) Associates

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

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

An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

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) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Joint ventures *(Continued)*

When the Group contributes or sells assets to a joint venture and the assets are retained by the joint venture, the Group recognises only that portion of the gain which is attributable to the interests of the other venturers and investors. The Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

When the Group purchases assets from a joint venture, the Group does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. When a loss results from the transaction, the Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of long term assets.

(f) 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 estimated residual value, if any, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the terms of the leases
Buildings	2%-5%
Leasehold improvements	10%
Plant and machinery	10%
Moulds	10-20%
Furniture, fixtures and equipment	10-20%
Motor vehicles	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 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

(ii) Measurement bases

Property, plant and equipment other than investment properties are stated at cost or revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and amortisation and subsequent accumulated impairment losses. The fair value is determined by reference to the open market value and depreciated replacement cost. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. 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.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

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.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Investment properties *(Continued)*

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.

(h) Goodwill

Goodwill arising on acquisition of subsidiaries, associates or jointly controlled entities 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 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, associates or jointly controlled entities, 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.

(i) 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 accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment *(Continued)*

(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.

(j) 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 all further costs of completion and the estimated costs necessary to make the sale.

(k) Short term investments

Short term investments are investments in listed equity securities held for trading purposes and are stated at the 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.

Gains or losses on disposal of a security are accounted for in the income statement as they arise.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) 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.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease terms.

(m) 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 contract period of the rights of five years.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is 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.

(o) Employee benefits

(i) Employee entitlements

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

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

(ii) Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (the "MPFS Ordinance"), for those employees who are eligible to participate in the scheme. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Retirement benefits schemes *(Continued)*

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Pension Scheme") for those employees who were eligible to participate in this scheme. This Pension Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Pension Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. The Group has obtained a certificate of exemption issued by the Mandatory Provident Fund 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% (2003: 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.

(p) 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 the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in exchange fluctuation reserve.

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) 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 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 and interests in joint ventures, 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 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) 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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude interest in a jointly controlled entity. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(s) 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.

(t) 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 by reference to the principal outstanding and the interest rate applicable.

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

Notes to the Financial Statements

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are 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. 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 manufactures 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 manufactures and trades water globes, snow domes, figurines and functional household products such as stocking hangers, pins, magnets, pencil toppers, pencil sharpeners and photo frames.

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

There were no intersegment sales and transfers between segments.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments

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

	Toys		Decorative gift items		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	39,741	52,866	40,933	31,180	80,674	84,046
Segment results	(6,594)	418	(2,506)	(2,233)	(9,100)	(1,815)
Interest, rental income and unallocated gains					3,286	4,127
Unallocated expenses					(4,201)	(5,151)
Operating loss					(10,015)	(2,839)
Finance costs					(3,549)	(2,397)
Share of loss of a jointly controlled entity					(487)	–
Share of (loss)/profit of an associate					(65)	460
Loss before taxation					(14,116)	(4,776)
Taxation					790	169
Minority interest					54	2
Loss attributable to shareholders					(13,272)	(4,605)
Segment assets	86,252	123,955	98,954	81,660	185,206	205,615
Unallocated assets					45,209	33,454
Total assets					230,415	239,069
Segment liabilities	18,446	32,839	23,348	27,694	41,794	60,533
Unallocated liabilities					42,133	21,754
Total liabilities					83,927	82,287
Other segment information:						
Depreciation and amortisation	4,654	4,889	3,790	3,586	8,444	8,475
Unallocated amounts					1,078	931
					9,522	9,406
Other non-cash expenses	4,254	1,738	1,654	4,139	5,908	5,877
Unallocated amounts					1,375	2,716
					7,283	8,593
Capital expenditure	162	2,582	5,027	1,382	5,189	3,964
Unallocated amount					–	–
					5,189	3,964

Notes to the Financial Statements

For the year ended 31 December 2004

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	
	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	15,073	22,184	46,703	42,171	14,336	13,925	4,562	5,766	80,674	84,046
Segment results	2,148	6,028	(8,690)	(5,453)	(2,018)	(1,691)	(540)	(699)	(9,100)	(1,815)
Other segment information:										
Segment assets	229,459	201,827	836	3,788	102	-	18	-	230,415	205,615
Unallocated assets									-	33,454
									230,415	239,069
Capital expenditure	5,189	3,964	-	-	-	-	-	-	5,189	3,964
Unallocated amount									-	-
									5,189	3,964

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER AND OTHER REVENUE AND GAINS

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 and gains is as follows:

	Group	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Turnover – sale of goods	80,674	84,046
Other revenue and gains		
Bank interest income	242	327
Gross rental income	245	542
Gain on disposal of a subsidiary	69	–
Dividend income from listed investments	59	119
Exchange gains, net	204	359
Sale of moulds	748	844
Surplus on revaluation of leasehold land and buildings	307	–
Unrealised holding gains on short term investments	–	953
Others	1,412	983
	3,286	4,127
Total revenue	83,960	88,173

Notes to the Financial Statements

For the year ended 31 December 2004

5. OPERATING LOSS

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating loss 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)	1,000	333
Auditors' remuneration	460	500
Bad debts written-off	49	552
Cost of inventories recognised as expense	57,274	54,412
Depreciation and amortisation:		
– owned property, plant and equipment	7,839	8,524
– leased property, plant and equipment	414	280
	8,253	8,804
Deficits on revaluation		
– investment properties	–	1,743
– leasehold land and buildings	–	1,092
	–	2,835
Impairment loss on production and distribution rights (included in distribution costs)	3,667	–
Provision for slow-moving inventories	2,191	1,446
Loss on disposal of		
– investment properties	440	362
– other property, plant and equipment	121	24
	561	386
Loss on dissolution of a subsidiary (included in other operating expenses)	448	–
Operating lease charges on land and buildings	709	748
Realised losses on short term investments	148	–
Unrealised holding losses on short term investments	194	–
Research and development costs – current year expenditure	1,634	1,949
Staff costs		
– Wages and salaries	12,734	10,580
– Pension costs – retirement benefits schemes contributions for staff	536	524
– Directors' remuneration	3,692	3,904
	16,962	15,008
Write off of property, plant and equipment	25	3,374

Notes to the Financial Statements

For the year ended 31 December 2004

5. OPERATING LOSS *(Continued)*

The cost of inventories recognised as expense includes approximately HK\$3,825,000 (2003: HK\$3,395,000) relating to research and development costs and provision for slow-moving inventories, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and trust receipt loans wholly repayable within five years	2,154	2,172
Interest on bank loans not wholly repayable within five years	131	146
Interest on finance leases	94	79
Interest on amount due to a jointly controlled entity	1,170	–
	3,549	2,397

Notes to the Financial Statements

For the year ended 31 December 2004

7. TAXATION

	Group	
	2004 HK\$'000	2003 HK\$'000
The tax credit comprises:		
Company and subsidiaries		
Current tax – Hong Kong		
– Tax for the year	72	73
– Under provision in respect of prior years	–	61
	72	134
Current tax – overseas		
– Tax for the year	26	157
– Over provision in respect of prior years	–	(130)
	26	27
Deferred tax		
– Current year tax credit (<i>note 27(a) and 27(b)</i>)	(888)	(1,350)
– Current year tax charge (<i>note 27(b)</i>)	–	955
– Attributable to increase in tax rate in Hong Kong	–	5
	(888)	(390)
	(790)	(229)
Share of taxation attributable to an associate	–	60
	(790)	(169)

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

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

Notes to the Financial Statements

For the year ended 31 December 2004

7. TAXATION (Continued)

The tax credit can be reconciled to the loss per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before tax	(14,116)	(4,776)
Tax calculated at the rate of 17.5% (2003: 17.5%)	(2,470)	(836)
Tax calculated at the rates applicable to other jurisdictions	815	1,029
Tax effect of expenses that are not deductible in determining taxable profit	2,802	2,687
Tax effect of non-taxable revenue	(1,936)	(3,458)
Tax effect of tax losses carried forward	–	1,350
Tax effect of utilisation of tax losses not previously recognised	(1)	(960)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	28
Share of taxation attributable to an associate	–	60
Over provision in prior years	–	(69)
Actual tax credit	(790)	(169)

In addition to the amount credited to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 25).

Fuzhou Zheng Defu Toys Co., Ltd. (福州正德福玩具有限公司) ("Zheng Defu") and Fujian Kcare Gifttoys Co., Ltd. (福建奇嘉禮品玩具有限公司) ("Fujian Kcare"), the 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 2004, no PRC enterprise income tax has been provided on the estimated assessable profit generated by Fujian Kcare as it was the subsidiary's first profitable year of operations. No provision for the PRC enterprise income tax has been made for Zheng Defu, 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 Putian Jiaxiong Toys Co., Ltd. ("Jiaxiong") (福建省莆田市嘉雄玩具有限公司) as these subsidiaries did not derive any assessable income during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2004 was approximately HK\$1,853,000 (2003: HK\$1,162,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the year of HK\$13,272,000 (2003: HK\$4,605,000) and the weighted average of 2,213,820,000 (2003: 2,209,435,167) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2004 and 2003 has not been shown as there were no dilutive potential ordinary shares.

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	Nil	Nil
Other emoluments		
– basic salaries, other allowances and benefits in kind	3,370	3,568
– retirement benefits schemes contributions	322	336
	3,692	3,904

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

	Executive directors		Independent non-executive directors *	
	2004	2003	2004	2003
HK\$Nil – HK\$1,000,000	1	1	3	2
HK\$1,000,001 – HK\$1,500,000	1	2	–	–
HK\$1,500,001 – HK\$2,000,000	1	–	–	–
	3	3	3	2

* There were no fees or other emoluments paid or payable to the independent non-executive directors for the year ended 31 December 2004 (2003: Nil).

Notes to the Financial Statements

For the year ended 31 December 2004

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(Continued)*

(a) Directors' remuneration *(Continued)*

No directors waived or agreed to waive any remuneration in respect of the year ended 31 December 2004 (2003: 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 (2003: Nil).

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, three (2003: three) were directors of the Company, details of whose remuneration are set out in note (a) above. Details of the remuneration of the remaining two (2003: two) highest paid individuals, which fell within the Nil to HK\$1,000,000 band, are as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries, other allowances and benefits in kind	995	1,194
Retirement benefits schemes contributions	90	93
	1,085	1,287

During the year, no emoluments were paid to these two highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2003: Nil).

Notes to the Financial Statements

For the year ended 31 December 2004

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation								
At 1 January 2004	4,700	116,257	2,080	18,657	20,177	3,516	3,414	168,801
Additions	-	-	13	50	4,888	238	-	5,189
Disposals	(4,300)	(1,357)	-	-	-	-	-	(5,657)
Disposal of a subsidiary	-	-	-	(8,746)	(8,319)	-	-	(17,065)
Accumulated depreciation eliminated on revaluation	-	(3,522)	-	-	-	-	-	(3,522)
Write off	-	-	-	(25)	-	(173)	(28)	(226)
Revaluation surplus								
- credited to the income statement	-	307	-	-	-	-	-	307
- dealt with in the revaluation reserves	-	2,994	-	-	-	-	-	2,994
At 31 December 2004	400	114,679	2,093	9,936	16,746	3,581	3,386	150,821
Accumulated depreciation and amortisation								
At 1 January 2004	-	-	1,584	8,375	6,003	2,286	2,219	20,467
Charge for the year	-	3,539	161	785	2,915	497	356	8,253
Disposals	-	(17)	-	-	-	-	-	(17)
Disposal of a subsidiary	-	-	-	(3,152)	(2,161)	-	-	(5,313)
Write off	-	-	-	(25)	-	(150)	(26)	(201)
Eliminated on revaluation	-	(3,522)	-	-	-	-	-	(3,522)
At 31 December 2004	-	-	1,745	5,983	6,757	2,633	2,549	19,667
Net book value								
At 31 December 2004	400	114,679	348	3,953	9,989	948	837	131,154
At 31 December 2003	4,700	116,257	496	10,282	14,174	1,230	1,195	148,334

Notes to the Financial Statements

For the year ended 31 December 2004

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	-	-	2,093	9,936	16,746	3,581	3,386	35,742
At professional valuation	400	114,679	-	-	-	-	-	115,079
At 31 December 2004	400	114,679	2,093	9,936	16,746	3,581	3,386	150,821
At cost	-	-	2,080	18,657	20,177	3,516	3,414	47,844
At professional valuation	4,700	116,257	-	-	-	-	-	120,957
At 31 December 2003	4,700	116,257	2,080	18,657	20,177	3,516	3,414	168,801

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Medium term leases held in Hong Kong	9,350	8,831
Medium term leases held outside Hong Kong	105,329	106,069
Long term leases held outside Hong Kong	-	1,357
	114,679	116,257

The leasehold land and buildings situated in Hong Kong for office purposes and outside Hong Kong for office and retail shop purposes were valued as at 31 December 2004 at HK\$18,516,000 (2003: HK\$19,520,000) on an open market value basis by Castores Magi Surveyors Limited ("Castores"), an independent firm of professional valuers. The leasehold land and buildings situated outside Hong Kong for the Group's production facilities were valued by Castores as at 31 December 2004 at HK\$96,163,000 (2003: HK\$96,737,000) on a depreciated replacement cost basis.

Notes to the Financial Statements

For the year ended 31 December 2004

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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\$40,128,000 (2003: HK\$43,699,000).

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Medium term leases held in Hong Kong	400	400
Long term leases held outside Hong Kong	–	4,300
	400	4,700

The investment property was valued on an open market value basis by Castores at 31 December 2004. The investment property held in Hong Kong represents 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 property is leased to a third party under operating lease arrangements, further details of which are included in note 29.

Pursuant to a sale and purchase agreement (the "S&P Agreement") entered into between the Group and an independent third party during 2001, the Group acquired leasehold land and buildings for retail shop purposes in the PRC (the "Property") with an aggregate carrying value of approximately HK\$6,650,000 at 31 December 2004.

The Group is in the process of applying for the ownership certificate for the Property. As confirmed by a legal opinion issued by the Group's PRC lawyer, the S&P Agreement is legally valid under the laws of the PRC and there is no legal barrier or otherwise for the Group to obtain ownership certificate for the Property from the relevant PRC authority.

At 31 December 2004, certain of the Group's leasehold land and buildings with an aggregate carrying value of approximately HK\$104,463,000 (2003: HK\$104,637,000) 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 2004, amounted to HK\$549,000 (2003: HK\$615,000), HK\$45,000 (2003: HK\$51,000) and HK\$818,000 (2003: HK\$1,160,000) respectively.

Notes to the Financial Statements

For the year ended 31 December 2004

12. INTANGIBLE ASSETS

	Group		Total
	Goodwill	Production and distribution rights	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying value at 1 January 2004	717	4,667	5,384
Impairment	–	(3,667)	(3,667)
Dissolution of a subsidiary	(448)	–	(448)
Amortisation charge for the year	(269)	(1,000)	(1,269)
Carrying value at 31 December 2004	–	–	–
Gross amount at 31 December 2004	–	5,000	5,000
Accumulated impairment	–	(3,667)	(3,667)
Accumulated amortisation	–	(1,333)	(1,333)
Carrying value at 31 December 2004	–	–	–
Gross amount at 31 December 2003	1,345	5,000	6,345
Accumulated amortisation	(628)	(333)	(961)
Carrying value at 31 December 2003	717	4,667	5,384

The production and distribution rights represent the exclusive right to produce and distribute the nano plush toys and the non-exclusive right to produce and distribute the nano decorative gift items in the PRC. The directors have assessed the market condition for these products and consider that the demand for such products will be limited in the near future and therefore full provision for impairment was made against the carrying amount of the rights as at 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

13. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Investments – Unlisted shares, at cost	125,261	125,261
Amounts due from subsidiaries	47,519	50,409
Amounts due to subsidiaries	–	675

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

Particulars of the principal subsidiaries as at 31 December 2004 are as follows:

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held		Principal activities	Place of operations
			by the Company Direct	Indirect		
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	50,500 ordinary shares of US\$1 each	100%	–	Investment holding	Hong Kong
Kiu Hung International Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (Note (a))	–	100%	Investment holding	Hong Kong
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (Note (a))	–	100%	Investment holding and trading of toys	Hong Kong
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	PRC

Notes to the Financial Statements

For the year ended 31 December 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
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	PRC
Fujian Kcare Gifts 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	PRC
Newgary Development Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (Note (a))	–	100%	Property holding	Hong Kong
Top Point Investments Limited	BVI	100 ordinary shares of US\$1 each	–	100%	Investment in securities	Hong Kong
Kiu Hung Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Property and investment holding	Hong Kong
Jubilee Creations, Inc.	USA	13,725 shares of US\$1 each	–	51%	Trading of decorative gift items and toys	USA
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	–	100%	Manufacture and trading of decorative gift items and toys	Hong Kong
Kiu Hung Macau Commercial Offshore Ltd.	Macau	1 ordinary share of MOP100,000 each	–	100%	Manufacture and trading of decorative gift items and toys	Macau

Notes to the Financial Statements

For the year ended 31 December 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
Fujian Putian Jiaxiong Toys Co., Ltd. 福建省莆田市嘉雄玩具有限公司 (Note (e))	PRC	RMB10,000,000	-	100%	Manufacture of toys	PRC
Huge Profit Enterprises Limited	BVI	10,000 ordinary shares of US\$1 each	-	100%	Investment holding	PRC

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 Gift 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 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.
- (e) Fujian Putian Jiaxiong 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 12 November 2002. Its registered capital is RMB10,000,000 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.

Notes to the Financial Statements

For the year ended 31 December 2004

14. INTEREST IN AN ASSOCIATE

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	335	400
Amount due from an associate	1,487	1,162

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

Particulars of the associate at 31 December 2004 are as follows:

Name	Place of incorporation and operations	Percentage of interest held by the Group		Nature of business
		2004	2003	
Miracles For Fun (HK) Limited	Hong Kong	30	30	Trading of toys and decorative gift items

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	27,550	–
Amount due to a jointly controlled entity	13,983	–

The amount due to a jointly controlled entity represents outstanding capital contribution payable to the jointly controlled entity, the payment date of which was originally due on 12 March 2004 and subsequently extended to 12 July 2004. The outstanding capital contribution bears interest at the rate of 18.25% per annum from the extended payment date of 12 July 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

15. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

As at 31 December 2004, the Group had an interest in the following jointly controlled entity:

Name of entity	Business structure	Principal place of operations	Place of incorporation	Nature of business	Percentage of interest held
Sangyang Spandex Co. Ltd. 桑陽氨綸有限公司	Incorporated	PRC	PRC	Production, research and development and sale of spandex in the PRC	30%

16. SHORT TERM INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Hong Kong listed equity securities, at market value	306	11,043

17. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	6,388	6,800
Work in progress	2,140	2,245
Finished goods	2,168	4,994
	10,696	14,039
Less: Provision for slow moving inventories	(3,637)	(1,446)
	7,059	12,593

Raw materials, work in progress and finished goods of HK\$4,716,000 (2003: HK\$5,953,000), HK\$1,246,000 (2003: HK\$1,646,000) and HK\$1,097,000 (2003: HK\$Nil) respectively are stated at net realisable value.

Notes to the Financial Statements

For the year ended 31 December 2004

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 2004, the ageing analysis of the trade and bills receivables, net of provision, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	342	3,090
31 days to 90 days	1,037	2,965
91 days to 180 days	–	307
Over 180 days	–	3
	1,379	6,365

19. CASH AND BANK BALANCES

Included in cash and bank balances is an amount of approximately HK\$47,698,000 (2003: HK\$38,055,000), 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 2004

20. TRADE AND BILLS PAYABLES

At 31 December 2004, the ageing analysis of the trade and bills payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	976	687
31 days to 90 days	3,665	5,864
91 days to 180 days	2,380	1,340
181 days to 360 days	152	74
Over 360 days	6	32
	7,179	7,997

21. BANK AND TRUST RECEIPT LOANS (SECURED)

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest bearing bank loans	29,308	30,261
Interest bearing trust receipt loans	2,973	2,258
	32,281	32,519
Bank loans repayable:		
Within one year or on demand	26,699	17,883
In the second year	440	9,769
In the third to fifth years, inclusive	1,431	1,871
Over five years	738	738
Trust receipt loans repayable within one year or on demand	2,973	2,258
	32,281	32,519
Less: Current portion due within one year included under current liabilities	(29,672)	(20,141)
Non-current portion included under non-current liabilities	2,609	12,378

Notes to the Financial Statements

For the year ended 31 December 2004

21. BANK AND TRUST RECEIPT LOANS (SECURED) (Continued)

At 31 December 2004, the banking facilities of the Group were secured by:

- (i) first legal charges on certain of the Group's leasehold land and buildings with an aggregate carrying value of approximately HK\$104,463,000 (2003: HK\$104,637,000) (note 11);
- (ii) corporate guarantees executed by the Company to the extent of HK\$39 million (2003: HK\$99 million);
- (iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$13 million (2003: HK\$103 million); and
- (iv) cross corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$25 million (2003: HK\$33 million).

22. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable:				
Within one year	663	735	574	640
In the second year	178	663	153	574
In the third to fifth years inclusive	67	245	57	210
Total minimum finance lease payments	908	1,643	784	1,424
Future finance charges	(124)	(219)		
Total net finance lease payables	784	1,424		
Less: Current portion due within one year included under current liabilities	(574)	(640)		
Non-current portion included under non-current liabilities	210	784		

Notes to the Financial Statements

For the year ended 31 December 2004

23. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
At 1 January 2003, 31 December 2003, 1 January 2004 and 31 December 2004, ordinary shares of HK\$0.02 each		
	5,000,000,000	100,000
Issued and fully paid:		
At 1 January 2003, ordinary shares of HK\$0.02 each	2,203,936,000	44,079
Exercise of warrants (<i>note</i>)	9,884,000	198
At 31 December 2003, 1 January 2004 and 31 December 2004, ordinary shares of HK\$0.02 each		
	2,213,820,000	44,277

Note:

During the period from 1 January 2003 to 7 October 2003 (last day for exercise of the warrants), 1,976,800 warrants were exercised for 9,884,000 ordinary shares of HK\$0.02 each in the Company at a price of HK\$0.14 per ordinary share and a total consideration of approximately HK\$1,384,000 was received by the Company.

24. SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") which became effective on 28 May 2002. Pursuant to the Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for shares of the Company (the "Shares"). The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

Notes to the Financial Statements

For the year ended 31 December 2004

24. SHARE OPTIONS *(Continued)*

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

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

During the year, no share options had been granted under the share option scheme (2003: Nil).

At 31 December 2004, no options had been granted or were outstanding under the share option scheme operated by the Company.

Notes to the Financial Statements

For the year ended 31 December 2004

25. RESERVES

Group

	Share premium HK\$'000	Statutory surplus reserve HK\$'000 (note (a))	Capital reserve HK\$'000 (note (b))	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Assets revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	472	976	702	(2,857)	338	61,713	53,586	114,930
Issue of shares	1,186	-	-	-	-	-	-	1,186
Release on disposal	-	-	-	-	(58)	-	-	(58)
Revaluation surplus	-	-	-	-	-	1,459	-	1,459
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(407)	-	(407)
Loss attributable to shareholders	-	-	-	-	-	-	(4,605)	(4,605)
At 31 December 2003 and at 1 January 2004	1,658	976	702	(2,857)	280	62,765	48,981	112,505
Revaluation surplus	-	-	-	-	-	2,994	-	2,994
Transfer in/(out)	-	133	-	-	-	-	(133)	-
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(16)	-	(16)
Loss attributable to shareholders	-	-	-	-	-	-	(13,272)	(13,272)
At 31 December 2004	1,658	1,109	702	(2,857)	280	65,743	35,576	102,211

Notes to the Financial Statements

For the year ended 31 December 2004

25. RESERVES (Continued)

Company

	Share premium HK\$'000	Capital reserve HK\$'000 (note (b))	Retained profits HK\$'000	Total HK\$'000
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)
At 31 December 2003 and at 1 January 2004	1,658	125,161	3,839	130,658
Loss attributable to shareholders	–	–	(1,853)	(1,853)
At 31 December 2004	1,658	125,161	1,986	128,805

- (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 prior to the listing of the Company's shares on the Stock Exchange 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 2004 consisted of the aggregate of the share premium, capital reserve and retained profits totalling approximately HK\$128,805,000 (2003: HK\$130,658,000).

Notes to the Financial Statements

For the year ended 31 December 2004

26. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of a subsidiary

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant equipment	11,752	–
Cash	1	–
Other payables and accruals	(424)	–
Provision for tax	(11,306)	–
	23	–
Gain on disposal of a subsidiary	69	–
	92	–
Satisfied by:		
Cash	92	–

An analysis of the net inflow of cash in respect of the disposal of a subsidiary is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration received	92	–
Cash disposed of	(1)	–
Net inflow of cash in respect of the disposal of a subsidiary	91	–

The subsidiary disposed of during the year did not contribute any amount to the Group's turnover (2003: HK\$Nil) and contributed HK\$11,000 (2003: HK\$Nil) to the consolidated loss after taxation and before minority interests for the year ended 31 December 2004.

The subsidiary disposed of during the year contributed HK\$738,000 (2003: utilised HK\$805,000) to the Group's net operating cash flows.

Notes to the Financial Statements

For the year ended 31 December 2004

27. DEFERRED TAXATION

- (a) The Group's deferred tax assets at 31 December 2004 of HK\$2,219,000 (2003: HK\$1,350,000) represent 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 2004 and the movements during the current and prior periods:

	Accelerated depreciation allowances	Revaluation of properties	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance 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
Balance at 31 December 2003 and at 1 January 2004	1,284	17,288	18,572
Credited to income statement for the year	(19)	–	(19)
Charged to equity	–	16	16
Balance at 31 December 2004	1,265	17,304	18,569

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK\$5,302,000 (2003: HK\$5,308,000) and HK\$3,853,000 (2003: HK\$3,853,000) 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 2004

28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transaction with a related party:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Nature of transaction		
Sales to an associate	6,728	9,333

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

29. 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 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	25	296

Notes to the Financial Statements

For the year ended 31 December 2004

29. 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 of two years (2003: one to three years).

At 31 December 2004, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	244	373
In the second to fifth years, inclusive	178	66
	422	439

(c) At 31 December 2004, the Company had no operating lease commitments.

30. CAPITAL COMMITMENTS

(a) The Group did not have any significant capital commitments at the balance sheet date (2003: Nil).

(b) The Company did not have any significant capital commitments at the balance sheet date (2003: Nil).

31. PLEDGE OF ASSETS

At 31 December 2004, the Group's land and buildings with an aggregate carrying value of approximately HK\$104,463,000 (2003: HK\$104,637,000) were pledged to banks to secure the Group's bank loans.

Notes to the Financial Statements

For the year ended 31 December 2004

32. CONTINGENT LIABILITIES

At 31 December 2004, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	39,000	99,000

The Group did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

33. 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\$858,000 (2003: HK\$860,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2004 and 2003, no contributions due in respect of the reporting years had not been paid over to the schemes.

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 2004 in respect of the retirement of its employees.

Notes to the Financial Statements

For the year ended 31 December 2004

34. POST BALANCE SHEET EVENT

On 19 April 2005, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company, entered into an agreement with Kiu Hung Holdings Limited, a company beneficially owned by the three executive directors of the Company in relation to the disposal of the entire issued share capital of Huge Profit Enterprises Limited ("Huge Profit"), a wholly owned subsidiary of Legend Wealth ("the Disposal"). According to the agreement, the assets to be disposed of are the entire issued share capital of Huge Profit ("the Sale Shares") and the shareholder's loan in the sum of HK\$14,029,904 owing by Huge Profit to Legend Wealth ("the Sale Loan"). The aggregate consideration for the sale and purchase of the Sale Shares and the Sale Loan shall be the aggregate amount of HK\$14,029,905, of which HK\$1 shall be the consideration for the sale and purchase of the Sale Shares and HK\$14,029,904 shall be the consideration for the sale and purchase of the Sale Loan. Huge Profit is an investment holding company and owns 30% of the equity interest in Sangyang Spandex Co. Ltd. ("Sangyang Spandex"), a jointly controlled entity of the Group. Sangyang Spandex is principally engaged in the production, research and development and sale of spandex in the PRC. Sangyang Spandex has not commenced any operation. The transaction will be subject to the approval of the independent shareholders at a general meeting of the Company to be convened in due course.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 18 to 66 were approved by the board of directors on 26 April 2005.