

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable laws of Arizona and those of the location of the property, Hermosillo, Mexico. In the Motion, the Company primarily argued that the Arizona court does not have sufficient subject matter and personal jurisdiction over the Company under the guarantee for the case to continue in that court, and as such, the case should be dismissed in favour of the Company.

On 24th January, 2005, the Arizona court denied the initial motion submitted by the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defences available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defences prove to be successful.

Having considered the Litigation with legal counsel to the Company, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, and its defenses, including defenses to the amount of damages awardable, are meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In addition, the Company has filed counterclaims against the plaintiff and a cross-claim against Sinomex in the Litigation. The Company is continuing to pursue its defenses, as well as its counterclaim and cross claim. On that basis, the Company has not made provision in relation to the Litigation.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2005, the Group employed approximately 8,400 (at 31st December 2004: 5,150) full time management, administrative and production staff in the United States, Europe, the PRC and Hong Kong. The number of production staff in the PRC will decrease after the peak season in the second half of the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies or self-enhancement courses.

PROSPECTS

During the period under review, the Hong Kong economy continued to recover, thus boosting the investor and consumer confidence which was further strengthened by the improving economies of the PRC and the United States. The optimistic outlook for Hong Kong is anticipated to be fuelled with the opening of the Disney Land. Nevertheless, keen competitions and challenges still exist and high operating costs continue to adversely affect profit margin. The recent appreciation of the Renminbi has added another element of uncertainty. Moreover, the recent interest rate hikes and the persistently high oil price have yet to show its impact on the global economies.