

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.

Though the operating conditions are difficult, the Group is dedicated to strive for the best performance by implementing its strategy to produce high quality products with competitive prices. Besides, the Group will continue to strengthen its core business, streamline its existing operations and tighten cost control measures. The Group is confident all these efforts can sustain and enhance its business growth. The Board is cautiously optimistic that year 2005 will be a profitable year for the Group.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Share Capital of the Company and the Associated Corporations

As at 30th June 2005, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

Interests in the Company

Name of Directors	Number of Ordinary Shares of HK\$0.10 each				
	Personal Interests	Family Interests	Corporate Interests	Total number of shares held	% of total issued shares
Kenneth Ting Woo-shou	94,065,385	586,629 (i)	244,175,800 (ii)	338,827,814	50.92%
Dennis Ting Hok-shou	9,692,817	275,000 (iii)	236,969,800 (iv)	246,937,617	37.11%
Patrick Leung Shing-cheung	40,338	–	–	40,338	0.006%
Moses Cheng Mo-chi	11,000	–	–	11,000	0.002%
Liu Chee-ming	–	–	1,000,000	1,000,000	0.15%
Floyd Chan Tsoi-yin	–	–	–	–	–
Andrew Yao Cho-fai	–	–	–	–	–

Notes:

- (i) The spouse of Mr. Kenneth Ting Woo-shou is the beneficial shareholder.
- (ii) Included in the “Corporate Interests” above were 209,671,000 shares of the Company held by its substantial shareholder, H.C. Ting’s Holdings Limited, in which Messrs. Dennis Ting Hok-shou and Kenneth Ting Woo-shou are each having a 45% controlling interest; and 34,504,800 shares of the Company held by its substantial shareholder, Glory Town Limited which is wholly owned by Mr. Kenneth Ting Woo-shou.