ANNUAL REPORT 2005 年報

僑雄國際控股有限公司
Kiu Hung International Holdings Limited

（於開曼群島註冊成立之有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code 股份編號：0381)

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. HUI Kee Fung *(Chairman)*
Mr. HUI Ki Yau *(Chief Executive Officer)*
Madam HUI Hung Tan, Teresa

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. LIN Al Yue
Mr. PENG Guanghui
Mr. KUNG King Ching, Conrad

COMPANY SECRETARY

Mr. CHAN Kwok Yuen, Elvis, CPA, FCCA

REGISTERED OFFICE

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Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor
Yale Industrial Centre
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Hong Kong

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

COMPANY HOMEPAGE/WEBSITE

http://www.kiuhung.com

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

Bank of China
Putian Branch
No. 560 Wenxian Road
Putian
Fujian
PRC

Industrial and Commercial Bank of China
Putian County Branch
No. 218 Sheng Li Road
Putian
Fujian
PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

CHAIRMAN'S STATEMENT

RESULTS

On behalf of the board of the directors (the "Board") of Kiu Hung International Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I hereby present the annual report and the audited consolidated results of the Group for the financial year ended 31 December 2005.

The Group's audited turnover and loss attributable to shareholders for the year ended 31 December 2005 were approximately HK$67.5 million (2004: HK$80.7 million) and HK$0.04 million (2004: HK$11.9 million) respectively. Basic loss per share for the year under review was 0.0019 HK cent (2004: 0.54 HK cent). The Board does not recommend the payment of any final dividend in respect of the year (2004: Nil).

BUSINESS REVIEW AND PROSPECTS

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK$31.8 million and HK$35.7 million, respectively (2004: approximately HK$39.8 million and HK$40.9 million, respectively), accounting for approximately 47% and 53% of the Group's total turnover, respectively.

The year of 2005 was challenging for the operations of the Group. Turnover decreased as a result of the intense competition in the People's Republic of China (the "PRC") toy and gift markets. Nevertheless, the Group managed to significantly narrow its net losses from approximately HK$11.9 million in 2004 to approximately HK$0.04 million in 2005 as a result of the development of new products with value-added features to enhance product profitability and the implementation of various cost control measures by the Group. During the year, the Group has increased its interest in Miracles For Fun (HK) Limited ("MFF") from 30% to 63%. MFF is principally engaged in the design and sale of a wide range of toys and decorative gift items. We believe that such acquisition will expand the customer base of the Group and provide cross-selling opportunities between the Group and MFF. Details of the acquisition are set out in the Company's announcement and circular dated 30 December 2005 and 13 January 2006, respectively.

During the year, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. ("SY Spandex"). As SY Spandex had not commenced any operation, the disposal had negligible impact on the business operations of the Group. Details of the disposal are set out in the Company's announcement and circular dated 25 April 2005 and 1 June 2005, respectively.

Looking forward, we are optimistic about the performance of the Group as the global economy continues to flourish. The Group will continue to strengthen its foothold in the toys and gifts business though the development of products with add-on features and functions. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC and to explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business. With the committed efforts of the staff and management, we are confident and optimistic on the prospects of the Group.

CHAIRMAN'S STATEMENT

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. During the year under review, the Group recorded a net cash outflow of approximately HK$9.2 million, which decreased the total cash and bank balances to approximately HK$48.0 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 77% of such borrowings bear interest at fixed lending rate. At 31 December 2005, the Group's bank and other borrowings amounted to approximately HK$32.9 million, out of which approximately 93% is repayable within one year. The gearing ratio of the Group at 31 December 2005 calculated as a ratio of total bank and other borrowings to total assets is approximately 21% (2004: 20%). Net current assets at 31 December 2005 was approximately HK$28.7 million and current ratio was at a healthy level of approximately 160%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2005, certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK$10.2 million and HK$9.3 million, respectively, were pledged to secure general banking facilities granted to the Group.

EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2005, the Group has a total of 1,053 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company .

APPRECIATION

I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, customers, business partners and suppliers, and also for the dedication and hard-working of our directors and staff members in last year.

HUI Kee Fung
Chairman

Hong Kong, 24 April 2006

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. HUI Kee Fung, aged 45, is the Chairman of the Company. He is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Hui has over 10 years of experience in the decorative gift and toy industries. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management Association, an Adjunct Professor of the City University of Hong Kong, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the Vice-Chairman of Putian Foreign Investors' Association in Fujian, the PRC, a General Committee Member of The Chamber of Hong Kong Listed Companies, a Committee Member of Hong Kong Young Industrialists Council, the Deputy Managing Director and a Visiting Professor of The Fujian Putian University in the PRC, the Honorary Dean of the Xiong Xing Business Administration College in The Fujian Putian University and an Honorary Citizen of Putian, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. HUI Ki Yau, aged 44, is the Chief Executive Officer of the Company. He is responsible for the operations and the sales and marketing functions of the Group. In addition, Mr. Hui is also the general manager of Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian ("Kiu Hung Light Industrial") and Qiao Xiong Toys Co., Ltd. Putian Fujian. Mr. Hui joined the Group in May 1991 and has over 10 years of experience in the sales and marketing field. He is currently a member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, a Director of The Fujian Province University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam HUI Hung Tan, Teresa, aged 37, is an executive Director of the Company and is responsible for the financial affairs, overall management and purchasing affairs of the Group. She joined the Group in January 1992 and has over 10 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Dr. LIN Al Yue, aged 45, is a trained pharmacologist and physiologist with extensive research and management experience in the biotechnology, pharmaceuticals, and healthcare industries. He is currently a Senior Director of Pre-clinical Development and Pharmacology at FibroGen, in the US and a China National Advisor for Research and Development of New Drugs in the PRC. Dr. Lin also served as the Head of In Vivo Pharmacology at Bayer Pharmaceuticals, Biotechnology Division, in the US. He holds a Doctoral Degree of Philosophy in Physiology from St. Louis University, in the US and a Master Degree in Business Administration from University of Phoenix, in the US, and is currently a Member of American Association for the Advancement of Science and a Member of the American Physiological Society. In addition, Dr. Lin is currently a Member of the Board of Directors with KenRose LLC of the US, which is an investment firm specializing in value investing and technology venture financing.

Mr. Peng Guanghui, aged 42, is a partner and the chief accountant of Xiamen Yong He Certified Public Accountants Co., Ltd. in the PRC. Mr. Peng graduated from the Fujian Financial Institution of the PRC and has over twenty years of experience in the fields of auditing, accounting and finance. Mr. Peng is also a Certified Public Accountant in the PRC and a member of The Chinese Institute of Certified Public Accountants.

Mr. Kung King Ching, Conrad, aged 41, is the general manager of Tat Shing Machinery Factory in Hong Kong and a director of Putian Hua Gang Industrial Development Co., Ltd. in the People's Republic of China. Mr. Kung holds a Bachelor of Administration Degree from the University of Regina in Canada and has over 20 years of experience in the trading and manufacturing industries. Mr. Kung was appointed as an independent non-executive director of the Company on 13 September 2005.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. CHAN Kwok Yuen, Elvis, aged 33, is the financial controller and the company secretary of the Company and is responsible for the financial and secretarial affairs of the Group. Mr. Chan holds a bachelor degree in commerce from Queen's University of Canada and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants. He joined the Group in July 2000 and has over 10 years of experience in the field of accounting.

Mr. HUANG Sheng Hai, aged 40, is the manager of the Group's production and material control department and is responsible for production and purchasing management. Mr. Huang holds a bachelor degree in medical science from the Medical School of Fujian Province, the PRC. He joined the Group in April 1992.

Madam LON Po Chi, aged 50, is the head of the Group's personnel and administration department and is responsible for the Group's personnel and administration affairs. She joined the Group in January 1996 and has over 20 years of experience in the field of personnel administration.

Mr. KE Guo Xian, aged 65, is the deputy general manager of Kiu Hung Light Industrial and is responsible for the production management and financial affairs of Kiu Hung Light Industrial. He joined the Group in May 1992 and has over 10 years of experience in the gift industry.

Mr. HUANG Jing Lin, aged 73, the chief engineer of Kiu Hung Light Industrial and is responsible for product engineering and technological improvement. He joined the Group in May 1992 and has over 40 years of experience in the field of engineering.

Madam TI Yuk Fun, Joanne, aged 39, is the marketing officer of the Group and is responsible for sales and marketing. Madam Ti holds a bachelor degree in commerce from University of Windsor of Canada. She joined the Group in March 1996 and has over 10 years of experience in the field of sales and marketing.

Madam LI Yim Hung, aged 37, is the officer of the product design and development department of the Group and is responsible for product design and development. She joined the Group in July 1996 and has over 15 years of experience in the field of product design and development.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2005 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 88.

The directors do not recommend the payment of any final dividend in respect of the year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 January 2001, after deduction of related expenses, amounted to approximately HK$43 million. The proceeds were applied in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

– approximately HK$5 million was used for developing new models and new products;

– approximately HK$5 million was used for the acquisition of new machinery and auxiliary equipment;

– approximately HK$10 million was used for establishing retail outlets and developing distribution channels in major cities in the PRC; and

– approximately HK$18 million was used as general working capital of the Group.

The Group has placed the unused balance of the net proceeds with licensed banks in Hong Kong and the People's Republic of China. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and the shareholders.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and assets and liabilities of the Group for the last five years prepared on the basis set out in notes (1) and (2) below:

RESULTS

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**67,528**	80,674	84,046	100,343	122,808
(Loss)/Profit before taxation	**(364)**	(12,732)	(3,425)	15,327	18,665
Taxation	**323**	790	169	(2,411)	(3,919)
(Loss)/Profit for the year	**(41)**	(11,942)	(3,256)	12,916	14,746
Attributable to:					
Equity holders of the Company	**(41)**	(11,888)	(3,254)	12,912	14,746
Minority interests	**–**	(54)	(2)	4	–
	(41)	(11,942)	(3,256)	12,916	14,746

ASSETS AND LIABILITIES

	31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**153,606**	166,249	175,051	172,395	179,435
Total liabilities	**(53,441)**	(69,084)	(66,832)	(61,851)	(65,013)
	100,165	97,165	108,219	110,544	114,422
Equity attributable to equity holders of the Company	**100,165**	97,165	108,165	110,539	114,422
Minority interests	**–**	–	54	5	–
	100,165	97,165	108,219	110,544	114,422

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2004 and 2005 are set out on page 22 of this annual report.

(2) The consolidated balance sheets as at 31 December 2004 and 31 December 2005 are as set out on page 23 of the annual report.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 13 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 62 of the annual report.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2005 are set out in note 26 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital together with reasons therefor, are set out in note 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company had distributable reserves of approximately HK$102,696,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the capital reserve and share premium of the Company of HK$125,161,000 and HK$1,658,000, respectively, at 31 December 2005 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$214,000.

RETIREMENT BENEFITS SCHEMES AND COSTS

Details of the Group's retirement benefits schemes and costs charged to the income statement for the year are set out in notes 3 and 35 to the financial statements, respectively.

In the opinion of the directors, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, as at 31 December 2005.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 49% of the total sales for the year and sales to the largest customer included therein accounted for approximately 21%. Purchases from the Group's five largest suppliers accounted for approximately 32% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 16%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Hui Kee Fung *(Chairman)*
Mr. Hui Ki Yau *(Chief Executive Officer)*
Ms. Hui Hung Tan, Teresa

Independent non-executive directors:
Dr. Lin Al Yue
Mr. Peng Guanghui
Mr. Kung King Ching, Conrad (appointed on 13 September 2005)
Mr. Sy Chin Mong, Stephen (resigned on 13 September 2005)

In accordance with article 87 of the Company's articles of association, Mr. Hui Kee Fung, will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Kung King Ching, Conrad, will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 5 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 December 2000 and shall continue thereafter for successive terms of one year, which may be terminated by either party thereto by giving to the other six months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	**Capacity**	**Number of Shares**	**Approximate shareholding**
Hui Kee Fung	Interest of a controlled corporation *(note)*	1,567,500,000 Long position	70.81%
Hui Ki Yau	Not applicable	–	–
Hui Hung Tan, Teresa	Not applicable	–	–

Note: The shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Save as disclosed above, as at the 31 December 2005, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required 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 to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

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 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.

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.

SHARE OPTION SCHEME *(Continued)*

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 ended 31 December 2005, no options had been granted or outstanding under the Scheme operated by the Group.

SUBSTANTIAL SHAREHOLDERS

At the date of this report, no person had registered an interest of 5% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance, other than the shares held by Legend Win as disclosed in the section headed “Directors’ interests in shares” above.

CONNECTED TRANSACTION

Details of the connected transaction regarding the disposal of Huge Profit Enterprises Limited is set out in note 36 to the financial statements. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transaction.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 36 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

PUBLIC FLOAT

As at the date of this report, based on information available to the Company and within the knowledge of the Directors of the Company, approximately 25% of the issued share capital of the Company was held by the public.

AUDITORS

Grant Thornton were appointed as auditors of the Company on 24 March 2003 to fill in the casual vacancy arising from the resignation of Ernst & Young. There have been no other change of auditors in the last three years.

Grant Thornton will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

HUI Kee Fung
Chairman

Hong Kong
24 April 2006

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2005, the Company has complied with all applicable provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2005.

BOARD OF DIRECTORS

The Board currently comprises three executive directors and three independent non-executive directors. For a Director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company’s Articles of Association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group’s strategic objectives. Day-to-day management of the Group’s business is delegated to the executive directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group’s overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group’s senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group’s expense upon their request.

CORPORATE GOVERNANCE REPORT

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Eight Board meetings were held in 2005. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2005 is set out below:

	Attendance/Number of Meetings			
Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive Director				
Mr. Hui Kee Fung *(Chairman)*	8/8	N/A	1/1	1/1
Mr. Hui Ki Yau *(Chief Executive Officer)*	8/8	N/A	N/A	N/A
Madam Hui Hung Tan, Teresa	8/8	N/A	N/A	N/A
Independent Non-Executive Director				
Dr. Lin Al Yue	8/8	3/3	1/1	1/1
Mr. Peng Guanghui	8/8	3/3	1/1	1/1
Mr. Kung King Ching, Conrad (appointed on 13 September 2005)	1/1	1/1	1/1	1/1
Mr. Sy Chin Mong, Stephen (resigned on 13 September 2005)	7/7	2/2	0/0	0/0

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meets regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 5 to 6.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Hui Ki Yau as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on page 5.

REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the Company upon request.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2005. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Dr. Lin Al Yue – *Chairman*
Mr. Peng Guanghui
Mr. Kung King Ching, Conrad
Mr. Hui Kee Fung

Directors' remunerations for the year are disclosed on pages 57 to 58 of this report.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request.

One meeting was held by the Nomination Committee in 2005. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Kung King Ching, Conrad – *Chairman*
Dr. Lin Al Yue
Mr. Peng Guanghui
Mr. Hui Kee Fung

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2005. All committee members are independent non-executive directors. Its current members include:

Mr. Peng Guanghui – *Chairman*
Dr. Lin Al Yue
Mr. Kung King Ching, Conrad

The Committee members possess diversified industry experience and the Chairman of the Committee has appropriate professional qualifications and experience in accounting matters. During the year, the Committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's internal control system.

INTERNAL CONTROLS

The Group's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the directors has conducted a review of its effectiveness during the year.

AUDITORS' REMUNERATION

During the year, the audit remuneration paid to the Company's auditors, Messrs Grant Thornton, amounted to HK$460,000, with an additional fee of HK$50,000 was being paid for the taxation services offered to the Group.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Auditors' Report on page 21.

AUDITORS' REPORT

Certified Public Accountants
Member of
Grant Thornton International

Grant Thornton
均富會計師行

To the members of Kiu Hung International Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong, 24 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Revenue	6	**67,528**	80,674
Cost of sales		**(44,705)**	(59,715)
Gross profit		**22,823**	20,959
Other income	6	**6,631**	3,286
Distribution costs		**(6,601)**	(11,889)
Administrative expenses		**(17,709)**	(19,361)
Other operating expenses		**(771)**	(1,626)
Operating profit/(loss)	7	**4,373**	(8,631)
Finance costs	8	**(3,533)**	(3,549)
Share of loss of a jointly controlled entity		**(869)**	(487)
Share of loss of an associate		**(335)**	(65)
Loss before income tax		**(364)**	(12,732)
Income tax credit	9	**323**	790
Loss for the year		**(41)**	(11,942)
Attributable to:			
Equity holders of the Company	10	**(41)**	(11,888)
Minority interests		**–**	(54)
		(41)	(11,942)
		HK cent	*HK cent*
Basic loss per share for loss attributable to the equity holders of the Company	11	**(0.0019)**	(0.54)

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*13*	**66,369**	60,318
Prepaid land lease payments	*14*	**6,118**	6,270
Investment property	*15*	**400**	400
Interest in an associate	*17*	**–**	335
Interest in a jointly controlled entity	*18*	**–**	27,550
Amount due from a related company	*19*	**2,619**	–
Deferred tax assets	*30*	**1,987**	2,219
		77,493	97,092
Current assets			
Inventories	*21*	**7,609**	7,059
Trade and bills receivables	*22*	**12,749**	1,379
Prepayment, deposits and other receivables	*22*	**1,796**	2,282
Amount due from an associate	*17*	**–**	1,487
Amount due from a related company	*19*	**5,513**	–
Tax recoverable		**126**	28
Financial assets at fair value through profit or loss/Short term investments	*23*	**286**	306
Cash at banks and in hand	*24*	**48,034**	56,616
		76,113	69,157
Current liabilities			
Trade and bills payables	*25*	**10,858**	7,179
Other payables and accruals	*25*	**5,655**	7,585
Capital contribution payable to a jointly controlled entity	*18*	**–**	13,983
Provision for tax		**263**	3,546
Borrowings	*26*	**30,650**	30,246
		47,426	62,539
Net current assets		**28,687**	6,618
Total assets less current liabilities		**106,180**	103,710
Non-current liabilities			
Borrowings	*26*	**2,251**	2,819
Deferred tax liabilities	*30*	**3,764**	3,726
		6,015	6,545
Net assets		**100,165**	97,165
EQUITY			
Equity attributable to Company's equity holders			
Share capital	*27*	**44,277**	44,277
Reserves	*29*	**55,888**	52,888
Total equity		**100,165**	97,165

Hui Ki Yau
Director

Hui Hung Tan, Teresa
Director

BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*16*	**100,261**	125,261
Current assets			
Other receivables		**–**	330
Amount due from a subsidiary	*16*	**46,743**	47,519
Cash at banks		**25**	22
		46,768	47,871
Current liabilities			
Other payables and accruals		**56**	50
Net current assets		**46,712**	47,821
Total assets less current liabilities		**146,973**	173,082
EQUITY			
Share capital	*27*	**44,277**	44,277
Reserves	*29*	**102,696**	128,805
Total equity		**146,973**	173,082

Hui Ki Yau
Director

Hui Hun Tan, Teresa
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Cash flows from operating activities			
Loss before income tax		**(364)**	(12,732)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment		**6,199**	6,717
Amortisation of prepaid land lease payments		**152**	152
Amortisation of goodwill		**–**	269
Impairment loss on goodwill		**261**	–
Amortisation of production and distribution rights		**–**	1,000
Impairment loss on production and distribution rights		**–**	3,667
Provision for slow moving inventories		**3,131**	2,191
Bad debts written-off		**162**	49
Revaluation surplus on leasehold land and buildings		**(147)**	(307)
Write off of property, plant and equipment		**29**	25
Loss on disposal of			
– investment properties		**–**	440
– other property, plant and equipment		**–**	121
Share of loss of an associate		**335**	65
Share of loss of a jointly controlled entity		**869**	487
Gains on disposal of subsidiaries		**(2,740)**	(69)
Loss on dissolution of a subsidiary		**–**	448
Interest expenses		**2,309**	2,379
Interest income		**(344)**	(242)
Operating profit before working capital changes		**9,852**	4,660
(Increase)/Decrease in inventories		**(3,681)**	3,343
(Increase)/Decrease in trade and bills receivables		**(10,724)**	4,937
Decrease in prepayment, deposits and other receivables		**486**	1,009
Increase in amount due from an associate		**(1,362)**	(325)
(Decrease)/Increase in trust receipt loans		**(1,193)**	715
Increase/(Decrease) in trade and bills payables		**3,679**	(818)
Increase in other payables and accruals		**166**	841
Cash (used in)/generated from operations		**(2,777)**	14,362
Interest paid		**(2,279)**	(2,285)
Interest paid in finance lease payments		**(30)**	(94)
Income tax refunded		**37**	–
Income tax paid		**(96)**	(113)
Net cash (used in)/generated from operating activities		**(5,145)**	11,870

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(10,911)**	(5,189)
Proceeds from disposal of investment properties		**–**	4,077
Proceeds from disposal of other property, plant and equipment		**–**	1,288
Decrease in financial assets at fair value through profit and loss/short term investments		**20**	10,737
Capital contribution to a jointly controlled entity		**–**	(14,054)
Acquisition of a subsidiary, net of cash acquired	*31(a)*	**529**	–
Proceeds from disposal of subsidiaries, net of cash disposed of	*31(b)*	**2,041**	91
Decrease in amount due from a related company		**2,900**	–
Interest received		**344**	242
Net cash used in investing activities		**(5,077)**	(2,808)
Cash flows from financing activities			
New bank loans		**28,368**	15,888
Repayment of bank loans		**(26,699)**	(16,841)
Repayment of capital element of finance lease payables		**(640)**	(640)
Net cash generated from/(used in) financing activities		**1,029**	(1,593)
Net (decease)/increase in cash at banks and in hand		**(9,193)**	7,469
Cash at banks and in hand at 1 January		**56,616**	49,147
Effect of foreign exchange rate changes, on cash held		**611**	–
Cash at banks and in hand at 31 December		**48,034**	56,616

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	Equity attributable to equity holders of the Company			Minority interests	Total equity
	Share capital	Other reserves	Retained profits		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004, as previously reported as equity	44,277	63,524	48,981	–	156,782
At 1 January 2004, as previously separately reported as minority interests	–	–	–	54	54
Effect of initial adoption of HKAS17 *(note 2.7)*	–	(53,250)	4,091	–	(49,159)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 *(note 2.7)*	–	(837)	280	–	(557)
At 1 January 2004, as restated	44,277	9,437	53,352	54	107,120
Revaluation surplus on properties	–	2,003	–	–	2,003
Appropriation of statutory surplus reserve	–	133	(133)	–	–
Deferred tax liability arising on revaluation of properties	–	(16)	–	–	(16)
Net income/(expense) recognised directly in equity	–	2,120	(133)	–	1,987
Loss for the year	–	–	(11,888)	(54)	(11,942)
Total recognised income and expense for the year	–	2,120	(12,021)	(54)	(9,955)
Balance at 31 December 2004, as restated	**44,277**	**11,557**	**41,331**	**–**	**97,165**
Balance at 31 December 2004, as previously reported	44,277	66,635	35,576	–	146,488
Effect of initial adoption of HKAS17 (note 2.7)	–	(54,241)	5,475	–	(48,766)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 (note 2.7)	–	(837)	280	–	(557)
At 31 December 2004 and 1 January 2005, as restated	44,277	11,557	41,331	–	97,165
Revaluation surplus on properties	–	1,841	–	–	1,841
Appropriation of statutory surplus reserve	–	386	(386)	–	–
Deferred tax liability arising on revaluation of properties	–	(202)	–	–	(202)
Translation adjustments	–	1,402	–	–	1,402
Reserve transferred to retained profits upon disposal of a subsidiary	–	(389)	389	–	–
Net income recognised directly in equity	–	3,038	3	–	3,041
Loss for the year	–	–	(41)	–	(41)
Total recognised income and expense for the year	–	3,038	(38)	–	3,000
Balance at 31 December 2005	**44,277**	**14,595**	**41,293**	**–**	**100,165**

Details of other reserves are set out in note 29 to the financial statements.

1. GENERAL INFORMATION

Kiu Hung International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands and its principal place of business is 14/F, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.

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 16. There were no significant changes in the nature of the Group's principal activities during the year.

The financial statements on pages 22 to 88 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable 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 for the year ended 31 December 2005 were approved by the board of directors on 24 April 2006.

2. ADOPTION OF NEW/REVISED HKFRS

From 1 January 2005, the Group has adopted the following new/revised standards and interpretations of HKFRS which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Tax
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits

2. ADOPTION OF NEW/REVISED HKFRS *(Continued)*

HKAS 21	The Effect of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HK(SIC) Int-12	Consolidation – Special Purpose Entities
HK(SIC) Int-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

2. ADOPTION OF NEW/REVISED HKFRS *(Continued)*

2.2 Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at valuation less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and building elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the consolidated income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively. Where the land and buildings elements cannot be allocated reliably, the entire lease payments continue to be treated as finance leases and included in property, plant and equipment.

2.3 Adoption of HKAS 32 and HKAS 39

HKAS 32 requires all disclosure and presentation rules regarding financial instruments to be applied retrospectively. HKAS 39 generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

Prior to the adoption of HKAS 39, the Group has investments in listed equity securities held for trading purposes and are stated at 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 consolidated income statement in the period in which they arise. Any gains or losses on disposal of a security are accounted for in the consolidated income statement as they arise.

There are no material adjustments arising from the adoption of HKAS 39 for trading securities apart from reclassification of trading securities from short term investments to financial assets at fair value through profit or loss on 1 January 2005.

2. ADOPTION OF NEW/REVISED HKFRS *(Continued)*

2.4 Adoption of HKAS 40 and HK (SIC) Int-21

In prior years, the Group stated its investment properties at valuation and recorded the increase in valuation in the investment properties revaluation reserve. Decreases in the valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are expensed in the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement, the increase that subsequently arose was credited to the consolidated income statement to the extent of the decrease previously charged with the remaining part of the increase credited to the investment properties revaluation reserve. Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the lease.

The adoption of HKAS 40 has led to the changes in the fair value of investment properties being recorded in the consolidated income statement and the investment properties are no longer subject to depreciation where the unexpired periods of the lease are 20 years or less.

According to the transitional provisions of HKAS 40, as the Group has previously disclosed publicly the fair value of the investment properties in prior years, the Group adjusted the opening balance of retained earnings for the earliest period presented and restated the comparative figures accordingly.

2.5 Other standards adopted

The adoption of other new or revised standards did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2. ADOPTION OF NEW/REVISED HKFRS *(Continued)*

2.6 The effect of changes in the accounting policies on the consolidated income statement is summarised below:

	Effect of adopting			
			HKAS 40 &	
		HKAS 32 &	**HK(SIC)**	
	HKAS 17	**HKAS 39**	**Int 21**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005				
Decrease/(Increase) in loss for the year				
Decrease in depreciation and amortisation	1,413	–	–	1,413
Decrease in gains on disposal of subsidiaries	–	(868)	–	(868)
Total decrease/(increase) in loss for the year	1,413	(868)	–	545
Decrease/(Increase) in basic loss per share (HK cent)	0.06	(0.04)	–	0.02

	Effect of adopting			
			HKAS 40 &	
		HKAS 32 &	**HK(SIC)**	
	HKAS 17	**HKAS 39**	**Int 21**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004				
Decrease in loss for the year				
Decrease in depreciation and amortisation	1,384	–	–	1,384
Total decrease in loss for the year	1,384	–	–	1,384
Decrease in basic loss per share (HK cent)	0.06	–	–	0.06

2. ADOPTION OF NEW/REVISED HKFRS *(Continued)*

2.7 The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:

	Effect of adopting			
	HKAS 17	**HKAS 32 & HKAS 39**	**HKAS 40 & HK(SIC) Int 21**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004 (Equity only)				
Increase/(Decrease) in equity				
Assets revaluation reserve	(53,250)	–	(557)	(53,807)
Investment property revaluation reserve	–	–	(280)	(280)
Retained profits	4,091	–	280	4,371
At 31 December 2004				
Increase/(Decrease) in assets				
Property, plant and equipment	(70,436)	–	(400)	(70,836)
Prepaid land lease payments	6,270	–	–	6,270
Investment property	–	–	400	400
Increase/(Decrease) in liabilities				
Deferred tax	(15,400)	–	557	(14,843)
Increase/(Decrease) in equity				
Assets revaluation reserve	(54,241)	–	(557)	(54,798)
Investment property revaluation reserve	–	–	(280)	(280)
Retained profits	5,475	–	280	5,755
At 31 December 2005				
Increase/(Decrease) in assets				
Property, plant and equipment	(68,871)	–	(400)	(69,271)
Prepaid land lease payments	6,118	–	–	6,118
Amount due from a related company	–	(868)	–	(868)
Investment property	–	–	400	400
Increase/(Decrease) in liabilities				
Deferred tax	(15,400)	–	557	(14,843)
Increase/(decrease) in equity				
Assets revaluation reserve	(54,241)	–	(557)	(54,798)
Investment property revaluation reserve	–	–	(280)	(280)
Retained profits	6,888	(868)	280	6,300

2. ADOPTION OF NEW/REVISED HKFRS *(Continued)*

2.8 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations of HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2006
[3] Effective for annual periods beginning on or after 1 December 2005
[4] Effective for annual periods beginning on or after 1 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and certain financial assets. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.2 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 inter-company transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the sale and the Group's share of its net assets together with any goodwill or negative goodwill.

3.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets in the consolidated balance sheet.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. Investment in associates is initially recognised at cost and subsequently accounted for using the equity method.

The Group's share of the post-acquisition results is included in the consolidated income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decision relating to the activity require the unanimous consent of the venturers.

The Group's share of the post-acquisition results of jointly-controlled entities is included in the consolidated income statement. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses.

3.6 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and

(2) income and expenses for each income statement are translated at average exchange rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Foreign currencies *(Continued)*

(iii) Group companies (Continued)

Any differences arising from this procedure are charged or credited to the exchange fluctuation reserve in equity.

3.7 Income and expense recognition

Revenue comprises the fair value for the sale of goods, net of rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised upon transfer of risk and rewards to the customer and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method.

Operating expenses are recognised in the income statement upon utilisation of the services.

3.8 Borrowing costs

All borrowing costs are expensed as incurred.

3.9 Research and development activities

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.

All other development costs are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Property, plant and equipment

Leasehold land and buildings are recognised at fair value, based on their use at the date of revaluation less any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers once every year. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of leasehold land and buildings is credited to the assets revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.12. To the extent that any decrease has previously been recognised in consolidated income statement, a revaluation increase is credited to consolidated income statement with the remaining part of the increase dealt with in the assets revaluation reserve. A decrease in net carrying amount of leasehold land and buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the asset and the remaining decrease recognised in consolidated income statement.

Depreciation on property, plant and equipment is provided to write off the cost or revalued amounts less their residual values, if any, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	2%-5%
Buildings	5%
Leasehold improvements	10%
Plant and machinery	10%
Moulds	10-20%
Furniture, fixtures and equipment	10-20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement. Any revaluation surplus remaining in equity is transferred to retained profits on the disposal of leasehold land and buildings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

3.11 Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

3.12 Impairment of assets

Goodwill, property, plant and equipment, prepaid land lease payment, investment property and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Impairment of assets *(Continued)*

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard (refer to note 3.10 for details).

The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and 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.

3.13 Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets and liabilities including contingent liabilities of the acquired subsidiaries at the date of acquisition. Goodwill arising on acquisition of subsidiaries is initially recognised in the consolidated balance sheet as an asset at cost and subsequently measured at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold.

3.14 Leases (as the lessee)

(a) Finance leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the present value of the lease payments plus incidental payment, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreement corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Leases (as the lessee) *(Continued)*

(b) *Operating leases*

(i) 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.

(ii) Prepaid land lease payments are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

3.15 Financial assets

In previous years, the Group classified its investments in securities as trading securities which were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the consolidated income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the consolidated income statement as they arose.

From 1 January 2005 onwards, the Group classifies its financial assets into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All regular way purchases or sales of financial assets are recognised on the trade date (i.e., the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All financial assets that are not classified as fair value through profit or loss are initially recognised at fair value, plus transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Financial assets *(Continued)*

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The accounting policies adopted in respect of each category of financial assets are set out below.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables (including trade and other receivables, amount due from a related company, cash at banks and in hand and amounts due from a subsidiary of the Company) are subsequently measured at amortised cost using the effective interest method, less impairment losses. An impairment loss is recognised in consolidated income statement when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Financial assets *(Continued)*

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value, with changes in value recognised in equity. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the consolidated income statement even though the financial asset has not been derecognised. Impairment losses previously recognised in the consolidated income statement on equity instruments will not reverse in subsequent periods. Impairment losses previously recognised in consolidated income statement on debt securities are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

(iv) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

3.17 Income tax

Income tax for the year comprises current and deferred tax.

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 the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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. Most changes in deferred tax is charged or credited to the consolidated income statement. Only changes in deferred tax assets and liabilities that relate to a change in value of assets and liabilities that is charged directly to equity are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Retirement benefit schemes and short term employee benefits

(i) Short-term employee benefits

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 consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

The employees of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme (the "Scheme"). The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Retirement benefit schemes and short term employee benefits *(Continued)*

(ii) Retirement benefits schemes (Continued)

The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above.

3.19 Financial liabilities

The Group's financial liabilities include bank and trust receipt loans, finance lease liabilities and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method, less settlement payment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.21 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.

In respect of business segment reporting, unallocated costs represent corporate expenses. Business segment assets consist primarily of, property, plant and equipment, inventories, amount due from a related company, receivables and operating cash. Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to 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.

3.22 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate of the Company/Group;

(c) the party is a member of the key management personnel of the Company or its parent;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Related parties *(Continued)*

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed bellows:

<u>Leasehold land and buildings and Investment property</u>

The leasehold land and buildings and investment property of the Group were stated at fair value in accordance with the accounting policy state in note 3.10 and 3.11 respectively. The fair value of the leasehold land and buildings and investment property are determined by an independently qualified professional surveyor, as set out in note 13 and note 15 respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

5. SEGMENT INFORMATION

There were no intersegment sales and transfers between segments.

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 toffers, 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.

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

	Toys		Decorative gift items		Total	
		Restated		Restated		Restated
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**31,838**	39,741	**35,690**	40,933	**67,528**	80,674
Segment results	**(645)**	(5,545)	**(723)**	(2,171)	**(1,368)**	(7,716)
Interest, rental income and unallocated gains					**6,631**	3,286
Unallocated expenses					**(890)**	(4,201)
Operating profit/(loss)					**4,373**	(8,631)
Finance costs					**(3,533)**	(3,549)
Share of loss of a jointly controlled entity					**(869)**	(487)
Share of loss of an associate					**(335)**	(65)
Loss before income tax					**(364)**	(12,732)
Income tax credit					**323**	790
Loss for the year					**(41)**	(11,942)
Segment assets	**44,021**	37,641	**76,446**	83,399	**120,467**	121,040
Unallocated assets					**33,139**	45,209
Total assets					**153,606**	166,249
Segment liabilities	**17,274**	6,779	**10,899**	19,615	**28,173**	26,394
Unallocated liabilities					**25,268**	42,690
Total liabilities					**53,441**	69,084
Other segment information:						
Depreciation and amortisation	**1,899**	3,685	**3,624**	3,375	**5,523**	7,060
Unallocated amounts					**828**	1,078
					6,351	8,138
Impairment loss on goodwill	**–**	–	**–**	–	**261**	–
Other non-cash expenses	**6**	4,254	**–**	1,654	**6**	5,908
Unallocated amounts					**205**	1,375
					211	7,283
Capital expenditure	**492**	162	**10,419**	5,027	**10,911**	5,189

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue, results and certain assets and expenditure information for the Group's geographical segments.

	PRC (including Hong Kong)		North America		European Union		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**3,005**	15,073	**48,611**	46,703	**13,161**	14,336	**2,751**	4,562	67,528	80,674
Segment results	**55**	2,475	**1,012**	(7,878)	**260**	(1,824)	**41**	(489)	1,368	(7,716)
Other segment information:										
Segment assets	**143,232**	165,294	**9,391**	836	**439**	102	**544**	17	**153,606**	166,249
Capital expenditure	**10,911**	5,189	**–**	–	**–**	–	**–**	–	**10,911**	5,189

6. REVENUE AND OTHER INCOME

(a) Revenue

Revenue, which is also turnover, represents total invoiced value of goods supplied.

(b) Other income

	Group	
	2005	2004
	HK$'000	*HK$'000*
Bank interest income	**244**	242
Other interest income	**100**	–
Dividend income from listed investments	**–**	59
Exchange gains, net	**53**	204
Rental income, net	**25**	245
Gains on disposal of subsidiaries (note 31(b))	**2,740**	69
Sale of moulds	**530**	748
Surplus on revaluation of leasehold land and buildings (reversing revaluation decrease previously charged to consolidated income statement)	**147**	307
Others	**2,792**	1,412
	6,631	3,286

7. OPERATING PROFIT/(LOSS)

	2005 *HK$'000*	Restated 2004 *HK$'000*
Operating profit/(loss) is arrived at after charging:		
Impairment loss on goodwill (included in other operating expenses)	**261**	–
Amortisation of goodwill (included in other operating expenses)	**–**	269
Amortisation of production and distribution rights		
(included in distribution costs)	**–**	1,000
Auditors' remuneration		
– current year	**460**	460
– overprovision in prior years	**(13)**	–
	447	460
Bad debts written-off	**162**	49
Cost of inventories recognised as expenses	**40,174**	57,274
Depreciation and amortisation:		
– owned property, plant and equipment	**6,060**	6,303
– leased property, plant and equipment	**139**	414
– prepaid land lease payments	**152**	152
	6,351	6,869
Impairment loss on production and distribution rights		
(included in distribution costs)	**–**	3,667
Provision for slow-moving inventories	**3,131**	2,191
Loss on disposal of		
– investment properties	**–**	440
– other property, plant and equipment	**–**	121
	–	561
Loss on dissolution of a subsidiary		
(included in other operating expenses)	**–**	448
Operating lease charges on land and buildings	**281**	709
Realised losses on disposal of short term loans	**–**	148
Changes in fair value of financial assets at fair value		
through profit and loss/short term investments	**20**	194
Research and development costs – current year expenditure	**1,401**	1,634
Staff costs		
– Wages and salaries	**11,670**	12,734
– Pension costs – retirement benefits schemes		
contributions for staff and directors	**818**	858
– Directors' remuneration	**3,360**	3,370
	15,848	16,962
Write off of property, plant and equipment	**29**	25

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest charges on:		
Bank loans and trust receipt loans		
wholly repayable within five years	**2,139**	2,154
Bank loans not wholly repayable within five years	**140**	131
Finance charges on finance leases	**30**	94
Interest on capital contribution payable to a jointly controlled entity	**1,224**	1,170
	3,533	3,549

9. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2005 HK$'000	2004 HK$'000
Current tax – Hong Kong		
Tax for the year	**73**	72
Current tax – overseas		
Tax for the year	–	26
Over provision in respect of prior years	**(306)**	–
	(233)	98
Deferred tax		
Current year (note 30)	**(90)**	(888)
Total income tax credit	**(323)**	(790)

9. INCOME TAX CREDIT *(Continued)*

Reconciliation between tax credit and accounting loss at applicable tax rates:

	2005 **HK$'000**	2004 HK$'000
Loss before income tax	**(364)**	(12,732)
Tax calculated at the rate of 17.5% (2004: 17.5%)	**(64)**	(2,228)
Tax calculated at the rates applicable to other jurisdictions	**8**	573
Tax effect of non-deductible expenses	**352**	2,802
Tax effect of non-taxable revenue	**(88)**	(1,936)
Tax effect of utilisation of tax losses not previously recognised	**(225)**	(1)
Over provision in prior years	**(306)**	–
Actual tax credit	**(323)**	(790)

In addition to the amount credited to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 29).

Fujian Kcare Giftoys Co., Ltd. (福建奇嘉禮品玩具有限公司)("Fujian Kcare"), the Group's subsidiary established and operating in the PRC, was exempt from PRC enterprise income tax for the first two profitable years of operations, and thereafter is 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 2005, no PRC enterprise income tax has been provided on the estimated assessable profit generated by Fujian Kcare as the subsidiary had the second profitable year of operation. No provision for the PRC enterprise income tax has been made for Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian (福建莆田市僑雄輕工有限公司), Qiao Xiong Toys Co., Ltd. Putian Fujian (福建省莆田市僑雄玩具有限公司) and Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司) (formerly known as Fujian Putian Jiaxiong Toys Co., Ltd. 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.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company dealt with in the financial statements of the Company for the year ended 31 December 2005 was approximately HK$26,109,000 (2004: HK$1,853,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holder of the Company for the year of HK$41,000 (2004 restated: HK$11,888,000) and the weighted average of 2,213,820,000 (2004: 2,213,820,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2005 and 2004 has not been shown as there is no dilutive potential ordinary share.

12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Employee benefit expense (including directors' emoluments)

	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**15,030**	16,104
Pension costs – defined contribution plans	**818**	858
	15,848	16,962

(b) Directors' and senior management's remuneration

Directors' emoluments

	Fees	**Salaries and allowances**	**Contribution to defined contribution plan**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2005				
Executive directors				
Mr. Hui Kee Fung	–	1,464	147	1,611
Mr. Hui Ki Yau	–	1,272	127	1,399
Ms. Hui Hung Tan, Teresa	–	624	62	686
Independent non-executive directors				
Mr. Kung King Ching, Conrad	–	–	–	–
Dr. Lin Al Yue	–	–	–	–
Mr. Peng Guanghui	20	–	–	20
Mr. Sy Chin Mong, Stephen	–	–	–	–
	20	3,360	336	3,716
For the year ended 31 December 2004				
Executive directors				
Mr. Hui Kee Fung	–	1,468	140	1,608
Mr. Hui Ki Yau	–	1,275	122	1,397
Ms. Hui Hung Tan, Teresa	–	627	60	687
Independent non-executive directors				
Dr. Lin Al Yue	–	–	–	–
Mr. Peng Guanghui	–	–	–	–
Mr. Sy Chin Mong, Stephen	–	–	–	–
	–	3,370	322	3,692

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

(b) Directors' and senior management's remuneration *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year ended 31 December 2005 (2004: 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 (2004: Nil).

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries and other allowances	**1,012**	995
Contribution to pensions schemes	**76**	90
	1,088	1,085

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 (2004: Nil).

The emoluments of the two highest paid individuals fell within the following bands:

Emolument band	**Number of highest paid individuals**	
	2005	2004
HK$Nil – HK$1,000,000	**2**	2

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings	Buildings	Leasehold improvements	Plant and machinery	Moulds	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (a))							
At 1 January 2004								
Cost or valuation	19,691	25,585	2,080	18,657	20,177	3,516	3,414	93,120
Accumulated depreciation	–	–	(1,584)	(8,375)	(6,003)	(2,286)	(2,219)	(20,467)
Net book amount	19,691	25,585	496	10,282	14,174	1,230	1,195	72,653
Year ended 31 December 2004								
Opening net book amount	19,691	25,585	496	10,282	14,174	1,230	1,195	72,653
Additions	–	–	13	50	4,888	238	–	5,189
Revaluation surplus credited to equity	551	1,452	–	–	–	–	–	2,003
Revaluation surplus credited to the consolidated income statement	307	–	–	–	–	–	–	307
Disposal/write off	(1,340)	–	–	–	–	(23)	(2)	(1,365)
Disposal of a subsidiary	–	–	–	(5,594)	(6,158)	–	–	(11,752)
Depreciation	(693)	(1,310)	(161)	(785)	(2,915)	(497)	(356)	(6,717)
Closing net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
At 31 December 2004								
Cost or valuation	18,516	25,727	2,093	9,936	16,746	3,581	3,386	79,985
Accumulated depreciation	–	–	(1,745)	(5,983)	(6,757)	(2,633)	(2,549)	(19,667)
Net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318

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

Group

	Leasehold land and buildings HK$'000 (Note (a))	Buildings HK$'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
Year ended 31 December 2005								
Opening net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
Additions	–	–	–	153	10,356	402	–	10,911
Arising from acquisition of a subsidiary	–	–	–	–	1,577	3	–	1,580
Revaluation surplus credited to equity	1,312	529	–	–	–	–	–	1,841
Revaluation surplus credited to consolidated income statement	147	–	–	–	–	–	–	147
Write off	–	–	–	(7)	–	(22)	–	(29)
Disposal of subsidiaries	–	–	–	–	(2,991)	–	–	(2,991)
Depreciation	(686)	(1,311)	(85)	(774)	(2,610)	(425)	(308)	(6,199)
Exchange differences	71	255	–	51	384	25	5	791
Closing net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
At 31 December 2005								
Cost or valuation	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651
Accumulated depreciation	–	–	(1,830)	(6,822)	(8,664)	(3,065)	(2,901)	(23,282)
Net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
At cost	**–**	**–**	**2,093**	**10,198**	**25,369**	**3,996**	**3,435**	**45,091**
At professional valuation	**19,360**	**25,200**	**–**	**–**	**–**	**–**	**–**	**44,560**
At 31 December 2005	**19,360**	**25,200**	**2,093**	**10,198**	**25,369**	**3,996**	**3,435**	**89,651**
At cost	–	–	2,093	9,936	16,746	3,581	3,386	35,742
At professional valuation	18,516	25,727	–	–	–	–	–	44,243
At 31 December 2004	18,516	25,727	2,093	9,936	16,746	3,581	3,386	79,985

Note (a): The land and buildings elements cannot be allocated reliably, and therefore the entire lease payments for these leasehold land and buildings were treated as finance leases and included in the Group's property, plant and equipment at valuation.

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

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Medium term leases held in Hong Kong	**10,450**	9,350
Medium term leases held outside Hong Kong	**34,110**	34,893
	44,560	44,243

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 carrying value of approximately HK$6,470,000 at 31 December 2005 (2004:HK$6,650,000).

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 2005, certain of the Group's buildings and leasehold land and buildings with aggregate carrying values of approximately HK$10,200,000 and HK$9,300,000 respectively (2004: HK$25,727,000 and HK$8,300,000 respectively) were pledged to secure general banking facilities granted to the Group as detailed in note 26.

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 2005, amounted to HK$482,000 (2004: HK$549,000), HK$39,000 (2004: HK$45,000) and HK$189,000 (2004: HK$818,000) respectively.

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 2005 at HK$19,360,000 (2004: HK$18,516,000) on an open market value basis by Castores Magi (Hong Kong) Limited ("Castores"), an independent firm of professional valuers. The buildings situated outside Hong Kong for the Group's production facilities were valued by Castores as at 31 December 2005 at HK$25,200,000 (2004: HK$25,727,000) on a depreciated replacement cost basis.

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

Had the Group's buildings and 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$17,782,000 (2004: HK$18,809,000) and HK$14,119,000 (2004: HK$15,050,000) respectively.

14. PREPAID LAND LEASE PAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**6,118**	6,270

At 31 December 2005, nil (2004: carrying value of approximately HK$3,935,000) of the Group's land use right was pledged to secure general banking facilities granted to the Group as detailed in note 26.

The Company did not have any prepaid land lease payments as at 31 December 2005 (2004: Nil).

15. INVESTMENT PROPERTY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount as at 1 January and 31 December	**400**	400

The investment property of the Group is situated in Hong Kong and held under medium term lease.

The investment property was valued on an open market value basis by Castores Magi (Hong Kong) Limited at 31 December 2005. 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 32.

The Group's property interests held under operating leases to earn rentals are measured by using the fair value model and are classified and accounted for as investment property.

16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2005	2004
	HK$'000	*HK$'000*
Investments – unlisted shares, at cost	**125,261**	125,261
Less: Provision for impairment	**(25,000)**	–
	100,261	125,261
Amount due from a subsidiary	**46,743**	47,519

The amount due from a subsidiary is unsecured, interest-free and repayable on demand. Accordingly, the amount is classified as current assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2005 are as follows:

Name	Country/ Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company Direct	Percentage of equity interests held by the Company Indirect	Principal activities	Place of operations
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	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%	Property holding	PRC
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 Giftoys 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

16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(Continued)*

Name	Country/ Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company Direct	Indirect	Principal activities	Place of operations
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%	Investment and property holding	Hong Kong
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
Ka Hung Toys Co., Ltd. Fujian 福建嘉雄玩具有限公司 (formerly known as 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 and trading of decorative gift items and toys	PRC
Miracles For Fun (HK) Limited	Hong Kong	100 ordinary shares of HK$100 each	–	63%	Trading of toys and decorative gift items	Hong Kong

16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(Continued)*

Notes:

(a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

(b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US$5,000,000 which has been fully paid up.

(c) Qiao Xiong Toys Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1996. Its registered capital is HK$10,000,000 which has been fully paid up.

(d) Fujian Kcare Giftoys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.

(e) Ka Hung Toys Co., Ltd. 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 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.

17. INTEREST IN AN ASSOCIATE

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	1
Share of post-acquisition result of an associate	–	334
	–	335

17. INTEREST IN AN ASSOCIATE *(Continued)*

Movements in the interest in an associate are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Balance at 1 January	**335**	400
Share of result of an associate		
– Loss before income tax	**(335)**	(65)
Balance at 31 December	**–**	335
Amount due from an associate	**–**	1,487

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

The summarised financial information in respect of the Group's associate is set out below:

	2005	2004
	HK$'000	*HK$'000*
Total assets	**–**	3,320
Total liabilities	**–**	(2,203)
Net assets	**–**	1,117
Revenue	**–**	12,583
Loss for the year	**–**	(135)
Group's share of loss of an associate for the year	**(335)**	(65)

The Group acquired further 33% of issued share capital of the associate, Miracles for Fun (HK) Limited ("MFF"), during the year. Details of the acquisition is set out in note 31(a).

A condensed summary of the financial information of the Group's associate is not presented for 2005 because MFF has become a non-wholly owned subsidiary fo the Group during the year.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY/CAPITAL CONTRIBUTION PAYABLE TO A JOINTLY CONTROLLED ENTITY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	28,037
Share of post-acquisition result of a jointly controlled entity	–	(487)
Interest in a jointly controlled entity	–	27,550
Capital contribution payable to a jointly controlled entity	–	13,983

The capital contribution payable to a jointly-controlled entity represented outstanding capital contribution to the jointly controlled entity, Sangyang Spandex Co. Ltd. ("Sangyang Spandex"), with payment due date on 12 July 2004. Such outstanding capital contribution was unsecured, but borne interest at the rate of 18.25% per annum.

Pursuant to the agreement dated 19 April 2005, Sangyang Spandex was disposed of by the Group to Kiu Hung Holdings Limited, a company beneficially owned by the three executive directors of the Company ("the Disposal").

Details of the Disposal are set out in note 36 (ii) under connected and related party transactions.

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 up to the date of the Disposal.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY/CAPITAL CONTRIBUTION PAYABLE TO A JOINTLY CONTROLLED ENTITY *(Continued)*

The following is a condensed summary of financial information of the Group's jointly controlled entity:

	2005	2004
	HK$'000	*HK$'000*
Non-current assets	**–**	17,655
Current assets	**–**	19,471
Net assets	**–**	37,126
Revenue	**–**	–
Loss after income tax	**–**	(1,623)
Group's share of loss of a jointly controlled entity for the year	**(869)**	(487)

A condensed summary of the financial information of the Group's jointly controlled entity is not presented for 2005 because Sangyang Spandex has been disposed of by the Group during the year.

19. AMOUNT DUE FROM A RELATED COMPANY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Non-current		
– Amount due from Kiu Hung Holdings Limited	**2,619**	–
Current		
– Amount due from Kiu Hung Holdings Limited	**5,513**	–
	8,132	–

The amount was stated at amortised cost using the effective interest rate of the Group at 6.9% per annum. The amount is unsecured and the repayment terms are set out in note 36(ii).

20. INTANGIBLE ASSETS

Group

	Goodwill HK$'000	Production and distribution rights HK$'000	Total HK$'000
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	–	–	–
Carrying value at 1 January 2005	–	–	–
Acquisition of a subsidiary	261	–	261
Impairment	(261)	–	(261)
Carrying value at 31 December 2005	–	–	–
Gross amount at 31 December 2005	261	5,000	5,261
Accumulated impairment	(261)	(3,667)	(3,928)
Accumulated amortisation	–	(1,333)	(1,333)
Carrying value at 31 December 2005	–	–	–

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.

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**10,358**	6,388
Work in progress	**3,228**	2,140
Finished goods	**791**	2,168
	14,377	10,696
Less: Provision for slowing moving inventories	**(6,768)**	(3,637)
	7,609	7,059
The cost of inventories recognised as expense and included in cost of sales	**40,174**	57,274

22. TRADE AND OTHER RECEIVABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade and bills receivables	**12,749**	1,379
Prepayments, deposits and other receivables	**1,796**	2,282
	14,545	3,661

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 2005, the ageing analysis of the trade and bills receivables, net of provision, is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**6,679**	342
31 – 90 days	**5,990**	1,037
91-180 days	**80**	–
	12,749	1,379

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong held for trading, at fair value	**286**	306
Market value of listed securities held as at 31 December	**286**	306

The trading securities were reclassified from short term investments to financial assets at fair value through profit or loss in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" on 1 January 2005.

Changes in fair values of financial assets at fair value through profit or loss are recorded in other operating expenses in the consolidated income statement.

24. CASH AT BANKS AND IN HAND

Included in cash at banks and on hand is an amount of approximately HK$36,732,000 (2004: HK$47,698,000), representing Renminbi ("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.

25. TRADE AND OTHER PAYABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Trade and bills payables	**10,858**	7,179
Other payables and accruals:		
Deposit received	**940**	824
Accrued expenses	**4,687**	6,728
Other taxes	**28**	33
	5,655	7,585
	16,513	14,764

25. TRADE AND OTHER PAYABLES *(Continued)*

At 31 December 2005, the ageing analysis of the trade and bills payables was as follows:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**2,728**	976
31 – 90 days	**5,595**	3,665
91 – 180 days	**2,196**	2,380
181 to 360 days	**308**	152
Over 360 days	**31**	6
	10,858	7,179

26. BORROWINGS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Non-current		
Interest bearing bank loans	**2,203**	2,609
Finance lease liabilities	**48**	210
	2,251	2,819
Current		
Interest bearing bank loans	**28,774**	26,699
Interest bearing trust receipt loans	**1,780**	2,973
Finance lease liabilities	**96**	574
	30,650	30,246
Total borrowings	**32,901**	33,065
Secured	**32,901**	33,065

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

26. BORROWINGS *(Continued)*

At 31 December 2005, the Group's bank loans and overdrafts and other borrowings (excluding finance lease liabilities) were repayable as follows:

	Group			
	Bank loans		Other borrowings	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**28,774**	26,699	**1,780**	2,973
In the second year	**445**	440	**–**	–
In the third to fifth years	**1,523**	1,431	**–**	–
Wholly repayable within 5 years	**30,742**	28,570	**1,780**	2,973
After the fifth year	**235**	738	**–**	–
	30,977	29,308	**1,780**	2,973

The analysis of the obligations under finance leases is as follows:

	2005	2004
	HK$'000	*HK$'000*
Due within one year	111	663
Due in the second to fifth years	56	245
	167	908
Future finance charges on finance leases	(23)	(124)
Present value of finance lease liabilities	144	784

The present value of finance lease liabilities is as follows:

Due within one year	96	574
Due in the second to fifth years	48	210
	144	784
Less: Portion due within one year included under current liabilities	(96)	(574)
Non-current portion included under non-current liabilities	48	210

26. BORROWINGS *(Continued)*

At 31 December 2005, the banking facilities of the Group were secured by:

(i) first legal charges on certain of the Group's buildings, leasehold land and buildings and land use rights with carrying value of approximately HK$10,200,000 (2004: HK$25,727,000), HK$9,300,000 (2004: HK$8,300,000) and nil (2004: HK$3,935,000) respectively (note 13 and 14);

(ii) corporate guarantees executed by the Company to the extent of HK$14 million (2004: 39 million) and;

(iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK$22 million (2004: HK$13 million).

The exposure of the Group's fixed-rate borrowings are as follows:

	2005	2004
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	**24,615**	25,808
In more than one year but not more than two years	**47**	153
In more than two years but not more than three years	**1**	56
In more than three years but not more than four years	**–**	1
	24,663	26,018

In addition, the Group has variable-rate borrowings which are denominated in Hong Kong dollars ("HKD") and RMB. For borrowings denominated in RMB with variable-rate, the rates are re-set quarterly based on rates announced by the People's Bank of China. For borrowings denominated in HKD with variable rate, the rates are set at the range from HIBOR plus 1.75% per annum to HK prime rate per annum.

26. BORROWINGS *(Continued)*

The ranges of effective interest rates on the Group's borrowings are as follows:

	2005	2004
	HK$'000	*HK$'000*
Effective interest rate:		
Fixed-rate borrowings	**3% to 7.25%**	3% to 7.25%
Variable-rate borrowings	**2.31% p.a. to 8.09% p.a.**	1.83% p.a. to 4% p.a.

During the year, the Group obtained new loans in the amount of HK$28,368,000. The loans bear interest rate at market rates and will be repayable in 2006. The proceeds were used to finance the Group's daily operations.

27. SHARE CAPITAL

	Number of shares	**As at 31 December 2005**	**As at 31 December 2004**
		HK$'000	*HK$000*
Authorised:			
5,000,000,000 ordinary shares of HK$0.02 each	5,000,000,000	100,000	100,000
Issued and fully paid:			
At 1 January 2004, 31 December 2004, 1 January 2005 and 31 December 2005	2,213,820,000	44,277	44,277

28. 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.

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 option had been granted under the share option scheme (2004: Nil).

At 31 December 2005, no option had been granted or was outstanding under the share option scheme operated by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. RESERVES

Group

	Other reserves							Retained profits	Total
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Assets revaluation reserve	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note (a))	*(note (b))*						
At 1 January 2004, as previously reported	1,658	976	702	(2,857)	280	62,765	63,524	48,981	112,505
Effect of initial adoption of HKAS17 *(note 2.7)*	–	–	–	–	–	(53,250)	(53,250)	4,091	(49,159)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 *(note 2.7)*	–	–	–	–	(280)	(557)	(837)	280	(557)
Balance at 1 January 2004, as restated	1,658	976	702	(2,857)	–	8,958	9,437	53,352	62,789
Revaluation surplus	–	–	–	–	–	2,003	2,003	–	2,003
Appropriation of statutory surplus reserve	–	133	–	–	–	–	133	(133)	–
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(16)	(16)	–	(16)
Net income/(expense) recognised directly in equity	–	133	–	–	–	1,987	2,120	(133)	1,987
Loss for the year	–	–	–	–	–	–	–	(11,888)	(11,888)
Total recognised income and expense for the year	–	133	–	–	–	1,987	2,120	(12,021)	(9,901)
At 31 December 2004	1,658	1,109	702	(2,857)	–	10,945	11,557	41,331	52,888

29. RESERVES *(Continued)*

Group

	Other reserves							Retained profits	Total
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Assets revaluation reserve	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note (a))	*(note (b))*						
At 31 December 2004, as previously reported	1,658	1,109	702	(2,857)	280	65,743	66,635	35,576	102,211
Effect of initial adoption of HKAS17 *(note 2.7)*	–	–	–	–	–	(54,241)	(54,241)	5,475	(48,766)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 *(note 2.7)*	–	–	–	–	(280)	(557)	(837)	280	(557)
Balance at 31 December 2004 and 1 January 2005, as restated	1,658	1,109	702	(2,857)	–	10,945	11,557	41,331	52,888
Revaluation surplus	–	–	–	–	–	1,841	1,841	–	1,841
Appropriation of statutory surplus reserve	–	386	–	–	–	–	386	(386)	–
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(202)	(202)	–	(202)
Translation adjustments	–	–	–	1,402	–	–	1,402	–	1,402
Reserve transferred to retained earnings upon disposal of a subsidiary	–	–	(389)	–	–	–	(389)	389	–
Net income recognised directly in equity	–	386	(389)	1,402	–	1,639	3,038	3	3,041
Loss for the year	–	–	–	–	–	–	–	(41)	(41)
Total recognised income and expense for the year	–	386	(389)	1,402	–	1,639	3,038	(38)	3,000
At 31 December 2005	**1,658**	**1,495**	**313**	**(1,455)**	**–**	**12,584**	**14,595**	**41,293**	**55,888**

29. RESERVES *(Continued)*

Company

	Share premium *HK$'000*	Capital reserve *HK$'000* *(note (b))*	Retained profits/ (Accumulated loss) *HK$'000*	Total *HK$'000*
At 1 January 2004	1,658	125,161	3,839	130,658
Loss for the year	–	–	(1,853)	(1,853)
At 31 December 2004 and at 1 January 2005	1,658	125,161	1,986	128,805
Loss for the year	–	–	(26,109)	(26,109)
At 31 December 2005	**1,658**	**125,161**	**(24,123)**	**102,696**

(a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their net profit after tax, as calculated in accordance with the PRC accounting regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiaries' equity owners. 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 excess of the nominal value of the aggregate 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 Company's shares issued in exchange therefor.

The capital reserve of the Company represents the difference between the combined net asset value of the subsidiaries acquired pursuant to the group reorganisation referred to above and the nominal value of the shares of the Company issued in exchange therefor.

30. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities

	Accelerated depreciation allowances		Revaluation of properties		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**1,265**	1,284	**2,461**	2,445	**3,726**	3,729
Acquisition of a subsidiary	**158**	–	**–**	–	**158**	–
Credited to consolidated income statement	**(322)**	(19)	**–**	–	**(322)**	(19)
Charged to equity	**–**	–	**202**	16	**202**	16
At 31 December	**1,101**	1,265	**2,663**	2,461	**3,764**	3,726

Deferred tax assets

	Tax losses	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**2,219**	1,350
(Charged)/Credited to consolidated income statement	**(232)**	869
At 31 December	**1,987**	2,219

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK$5,348,000 (2004: HK$5,302,000) and HK$3,853,000 (2004: HK$3,853,000) respectively due to the unpredictability of future profit streams. The tax losses will not expire under current tax legislation.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

On 17 December 2005, Pine Growth International Limited, a wholly owned subsidiary of the Group, entered into an agreement with Miracles For Fun, LLC, an independent third party in relation to the acquisition of 33% of the issued share capital of Miracles for Fun (HK) Limited ("MFF") (the "Acquisition"). MFF, an associate of the Group with 30% interests before the Acquisition, is incorporated in Hong Kong with limited liability and is engaged in trading of toys and decorative gifts. Upon completion of the Acquisition, the Group has 63% interests in the issued share capital of MFF and MFF becomes a non-wholly owned subsidiary of the Company.

	2005 ***HK$'000***	2004 *HK$'000*
Net assets acquired:		
Property, plant and equipment	**1,580**	–
Trade and other receivables	**808**	–
Amount due to an associate	**(2,849)**	–
Tax recoverable	**126**	–
Cash at banks	**529**	–
Trade and other payables	**(297)**	–
Deferred tax liabilities	**(158)**	–
Net liabilities acquired	**(261)**	–
Goodwill	**261**	–
Consideration	**–**	–
Satisfied by:		
Cash	**–**	–

Analysis of the net cash inflow of cash and cash equivalents in respect of the acquisition of a subsidiary:–

	2005 ***HK$'000***	2004 *HK$'000*
Cash consideration	**–**	–
Cash acquired	**529**	–
Net cash inflow in respect of the acquisition of a subsidiary	**529**	–

The acquired business contributed revenues of HK$627,000 and net loss of HK$17,000 to the Group for the period from 18 December 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK$76,279,000 and loss before allocations would have been HK$1,158,000.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Interest in a jointly controlled entity	**26,681**	–
Property, plant and equipment	**2,991**	11,752
Cash	**27**	1
Other payables and accruals	**(2,393)**	(424)
Capital contribution payable to a jointly controlled entity	**(13,983)**	–
Provision for tax	**(2,963)**	(11,306)
	10,360	23
Gains on disposal of subsidiaries	**2,740**	69
Consideration	**13,100**	92
Satisfied by:		
Cash	**2,068**	92
Receivable from a related company	**11,032**	–
	13,100	92

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

	2005	2004
	HK$'000	*HK$'000*
Cash consideration received	**2,068**	92
Cash disposed of	**(27)**	(1)
Net cash inflow in respect of the disposal of subsidiaries	**2,041**	91

The subsidiaries disposed of during the year did not contribute any amount to the Group's revenue (2004: HK$Nil) and contributed HK$1,224,000 (2004: HK$11,000) to the consolidated loss after taxation for the year ended 31 December 2005.

The subsidiaries disposed of during the year utilised HK$1,413,000 (2004: contributed HKD738,000) to the Group's net operating cash flows.

32. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment property under operating lease arrangement, with lease negotiated for a term of one year. The terms of the lease generally also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**25**	25

(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 (2004: two years).

At 31 December 2005, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**178**	244
In the second to fifth years, inclusive	**–**	178
	178	422

(c) At 31 December 2005, the Company had no operating lease commitments.

33. CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitment at the balance sheet date (2004: Nil).

34. CONTINGENT LIABILITIES

At 31 December 2005, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2005	2004
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**14,000**	39,000

The Group did not have any significant contingent liabilities at the balance sheet date (2004: Nil).

35. 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$818,000 (2004: HK$858,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2005 and 2004, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2004: Nil) was available at 31 December 2005 to reduce the Group's future contributions.

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 2005 in respect of the retirement of its employees.

36. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group is controlled by Kiu Hung International Holdings Limited, a limited liability company incorporated and domiciled in Cayman Islands. The ultimate parent company of the Group is Legend Win Profits Limited, a company incorporated in British Virgin Islands.

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following significant transactions with connected and related parties:

(i) Sales of goods

	2005	2004
	HK$'000	*HK$'000*
Sales of goods to Micacles for Fun (HK) Limited ("MFF"), an associate of the Group	**2,524**	6,728

Sales to MFF were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

On 17 December 2005, MFF became a non-wholly owned subsidiary of the Group (see details in note 31(a)). After then, all transactions and balances with MFF are eliminated on consolidation.

(ii) Disposal of a subsidiary, Huge Profit Enterprises Limited

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 was HK$14,029,905, of which HK$1 was the consideration for the sale and purchase of the Sale Shares and HK$14,029,904 was 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., a jointly controlled entity of the Group.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Disposal of subsidiary, Huge Profit Enterprises Limited (Continued)

As at 31 December 2005, included in total consideration of HK$14,029,905, HK$9,000,000 was still outstanding from Kiu Hung Holdings Limited and will be collected by the Group in 3 instalments on the date falling 12 months, 18 months and 24 months after the completion date of the Disposal (i.e. 24 June 2005). Such outstanding consideration has been recorded as amount due from a related company at amortised cost of HK$8,132,000 under current or non-current assets in the consolidated balance sheet (note 19) as at 31 December 2005.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial assets and liabilities include available-for-sale financial assets, trade and other receivables, amount due from a related company, cash and bank balances, trade and other payables, and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

37.1 Foreign currency risk

Major subsidiaries of the Group operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against the Hong Kong dollars. It has not hedged its foreign exchange rate risk. However the management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arises.

37.2 Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank borrowings (bank borrowings carry interest at variable rate and fixed rate). The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 26. The Group currently does not have an interest rate hedging policy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

37.3 Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

37.4 Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

37.5 Liquidity risk

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

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