

# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand the Prospectus Documents to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the existing Shares and the Offer Shares may be settled through CCASS established and operated by HKSCC. You should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

A copy of each of the Prospectus Documents, together with copies of the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this Prospectus, have been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any of these documents.

The Stock Exchange and HKSCC take no responsibility for the contents of the Prospectus Documents, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Prospectus Documents.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.



僑雄國際控股有限公司

Kiu Hung International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 381)

OPEN OFFER OF 774,837,000 OFFER SHARES  
AT HK\$0.05 PER OFFER SHARE

ON THE BASIS OF  
SEVEN OFFER SHARES FOR EVERY TWENTY EXISTING  
SHARES HELD ON THE RECORD DATE  
PAYABLE IN FULL ON ACCEPTANCE

Financial adviser to Kiu Hung International Holdings Limited



KINGSTON CORPORATE FINANCE LIMITED

Underwriters to the Open Offer



KINGSTON SECURITIES LIMITED



聯發證券有限公司  
LUEN FAT SECURITIES CO. LTD.

The latest time for acceptance of and payment for the Offer Shares is 4:00 p.m. on Monday, 14 August 2006. The procedures for acceptance and transfer of the Offer Shares is set out on pages 17 to 18 of this Prospectus.

Kingston (on behalf of the Underwriters) may terminate the Underwriting Agreement by notice in writing to the Company, prior to 4:00 p.m. on Thursday, 17 August 2006 or such other time as may be agreed between the Underwriters and the Company if:

- (1) in the reasonable opinion of Kingston (on behalf of the Underwriters), the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Kingston (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Kingston (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Kingston (on behalf of the Underwriters) is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Kingston (on behalf of the Underwriters) will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer.

Kingston (on behalf of the Underwriters) shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or
- (2) any Specified Event comes to the knowledge of the Underwriters, then and, in such case, Kingston (on behalf of the Underwriters) may, by notice in writing given to the Company prior to the Latest time for Termination, rescind the Underwriting Agreement and thereupon the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party in respect of any matter or thing arising out of and in connection with the Underwriting Agreement (save for any antecedent breaches thereof) and the Open Offer shall not proceed.

The Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriters not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed "Termination of the Underwriting Agreement" in the section headed "Underwriting arrangements" in this prospectus). Accordingly, the Open Offer may or may not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

The Shareholders should note that the Shares have been dealt in on an ex-entitlement basis commencing from Tuesday, 25 July 2006 and that dealing in Shares will take place while the conditions to which the Underwriting Agreement is subject to remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject to are fulfilled (which is expected to be on Thursday, 17 August 2006), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

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## EXPECTED TIMETABLE

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2006

Despatch of Prospectus Documents .....	Monday, 31 July
Record Date .....	Monday, 31 July
Register of members for the Shares reopens .....	Tuesday, 1 August
Latest time for acceptance of and payment for Offer Shares .....	4:00 p.m. on Monday, 14 August
Latest time for the Open Offer to become unconditional .....	4:00 p.m. on Thursday, 17 August
Announcement of the results of the Open Offer .....	Monday, 21 August
Despatch of share certificates for Offer Shares .....	Tuesday, 22 August
Dealings in fully-paid Offer Shares commence .....	Thursday, 24 August

All times stated in this Prospectus refer to Hong Kong times. Dates stated in this Prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be announced as appropriate.

The Shareholders of the Company should note that completion of the Underwriting Agreement is conditional and may or may not proceed. The Shareholders and potential investors of the Company should exercise extreme caution when dealing in the Shares.

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER**

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning
  - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 14 August 2006. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same Business Day;
  - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 14 August 2006. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Open Offer does not take place on Monday, 14 August 2006, the dates mentioned in the section headed “Expected timetable” in this Prospectus may be affected. A press announcement will be made by the Company in such event.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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Kingston (on behalf of the Underwriters) may terminate the Underwriting Agreement by notice in writing to the Company, prior to 4:00 p.m. on Thursday, 17 August 2006 or such other time as may be agreed between the Underwriters and the Company if:

- (1) in the reasonable opinion of Kingston (on behalf of the Underwriters), the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Kingston (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Kingston (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Kingston (on behalf of the Underwriters) is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Kingston (on behalf of the Underwriters) will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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**Kingston (on behalf of the Underwriters) shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:**

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or**
- (2) any Specified Event comes to the knowledge of the Underwriters,**

**then and, in such case, Kingston (on behalf of the Underwriters) may, by notice in writing given to the Company prior to the Latest time for Termination, rescinds the Underwriting Agreement and thereupon the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party in respect of any matter or thing arising out of and in connection with the Underwriting Agreement (save for any antecedent breaches thereof) and the Open Offer shall not proceed.**

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## DEFINITIONS

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*In this Prospectus, the following expressions have the following meanings, unless the context requires otherwise:*

“Announcement”	the announcement of the Company dated 6 July 2006 in relation to the Open Offer
“Application Form(s)”	the application form(s) in respect of the assured allotment of Offer Shares
“Board”	board of Directors
“Business Day(s)”	any day(s) (other than Saturday), on which banks in Hong Kong are open for business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Kiu Hung International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“Excluded Shareholders”	those Overseas Shareholders to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to them
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Kingston”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Last Trading Day”	4 July 2006, being the last trading day prior to the suspension of trading in the Shares before the date of the Announcement

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## DEFINITIONS

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“Latest Lodging Date”	being 4:00 p.m. on Wednesday, 26 July 2006 as the latest time for lodging transfer of Share in order to qualify for the Open Offer
“Latest Practicable Date”	Friday, 28 July 2006, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Monday, 14 August 2006 or such later time or date as may be agreed between the Company and Kingston (on behalf of the Underwriters), being the latest time for acceptance of, and payment for, the Offer Shares
“Latest Time for Termination”	4:00 p.m. on Thursday, 17 August 2006 or such later time or date as may be agreed between the Company and Kingston (on behalf of the Underwriters), being the latest time to terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Luen Fat”	Luen Fat Securities Company Limited, a licensed corporation to carry on business in type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Offer Share(s)”	774,837,000 new Shares to be offered to the Qualifying Shareholders for subscription on the basis of seven Offer Shares for every twenty existing Shares held on the Record Date pursuant to the Open Offer
“Open Offer”	the issue of the Offer Shares by way of Open Offer to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein
“Options”	options to subscribe for Shares granted under the Share Option Scheme
“Overseas Letter”	a letter from the Company to the Excluded Shareholders explaining the circumstances in which the Excluded Shareholders are not permitted to participate in the Open Offer
“Overseas Shareholder(s)”	the Shareholder(s) with registered address and correspondence address on the register of members of the Company which are outside Hong Kong as at the close of business on the Record Date
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer

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## DEFINITIONS

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“Prospectus Documents”	the Prospectus and the Application Form in respect of the assured allotment of Offer Shares
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Excluded Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Monday, 31 July 2006, being the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	share option scheme adopted by the Company on 28 May 2002
“Specified Event”	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.05 per Offer Share
“Underwriters”	Kingston and Luen Fat
“Underwriting Agreement”	the underwriting agreement dated Wednesday, 5 July 2006 entered into between the Company and the Underwriters in relation to the Open Offer
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



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LETTER FROM THE BOARD

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僑雄國際控股有限公司

**Kiu Hung International Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 381)

*Executive Directors:*

Mr. Hui Kee Fung

Mr. Hui Ki Yau

Madam Hui Hung Tan, Teresa

*Independent non-executive Directors:*

Mr. Peng Guanghui

Mr. Kung King Ching, Conrad

Mr. Tang Rongzu

*Registered office:*

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

Cayman Islands

*Head office and principal place  
of business in Hong Kong:*

14th Floor

Yale Industrial Centre

61-63 Au Pui Wan Street

Fo Tan, Shatin

Hong Kong

31 July 2006

*To the Qualifying Shareholders*

Dear Sir or Madam,

**OPEN OFFER OF 774,837,000 OFFER SHARES  
AT HK\$0.05 PER OFFER SHARE  
ON THE BASIS OF  
SEVEN OFFER SHARES FOR EVERY TWENTY EXISTING  
SHARES HELD ON THE RECORD DATE  
PAYABLE IN FULL ON ACCEPTANCE**

**INTRODUCTION**

It was announced on 6 July 2006 that the Board intended to raise approximately HK\$38.74 million, before expenses, by issuing 774,837,000 Offer Shares at a price of HK\$0.05 per Offer Share by way of Open Offer of new Shares, on the basis of seven Offer Shares for every twenty existing Shares held on the Record Date and payable in full on acceptance.

This Prospectus sets out further information on the Open Offer, including information on dealing in and transfers and acceptances of the Offer Shares and financial and other information in respect of the Group.

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## LETTER FROM THE BOARD

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### OPEN OFFER

#### Issue statistics

Basis of the Open Offer	:	Seven Offer Shares for every twenty existing Shares held on the Record Date
Subscription Price	:	HK\$0.05 per Offer Share
Number of Shares in issue as at the Latest Practicable Date	:	2,213,820,000 Shares
Number of Offer Shares	:	774,837,000 Offer Shares
Number of Offer Shares underwritten by the Underwriters	:	Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite 774,837,000 Offer Shares on a fully underwritten basis (of which Kingston has agreed to underwrite not more than 440,000,000 Offer Shares in the first place and Luen Fat has agreed to underwrite the remaining of not more than 334,837,000 Offer Shares in the second place)
Number of Shares in issue upon completion of the Open Offer	:	2,988,657,000 Shares

The Offer Shares to be issued pursuant to the terms of the Open Offer represent 35% of the entire issued share capital of the Company as at the Latest Practicable Date and approximately 26.93% of the entire issued share capital of the Company as enlarged by the issue of the Offer Shares.

As at the Latest Practicable Date, there are an aggregate of 94,500,000 outstanding Options eligible for exercise to subscribe for up to an aggregate of 94,500,000 Shares at a subscription price of HK\$0.13 per Share (subject to adjustment) on or after 1 January 2007. Given that the Options are ineligible for exercise on or before the Record Date, there will be 774,837,000 Offer Shares under the Open Offer.

As at the Latest Practicable Date, the controlling Shareholder has not indicated whether it will subscribe for the Offer Shares to which it will be entitled under the Open Offer.

As at the Latest Practicable Date, save for the Options mentioned above, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares and, save for the Open Offer, has no intention to issue any new Shares or any of the above securities before the Latest Time for Acceptance, which is expected to be at 4:00 p.m. on Monday, 14 August 2006.

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## LETTER FROM THE BOARD

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### Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Overseas Letter together with the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii) not be Excluded Shareholders.

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:00 p.m. on Wednesday, 26 July 2006. The address of the Registrar is:

Tengis Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange and the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements.

### Closure of register of members

The register of members of the Company was closed from Thursday, 27 July 2006 to Monday, 31 July 2006, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares was registered during this period.

### Subscription Price

The Subscription Price for the Offer Shares is HK\$0.05 per Offer Share, payable in full on acceptance. The Subscription Price represents:

- (i) a discount of approximately 70.59% to the closing price of HK\$0.17 per Share as quoted on the Stock Exchange on Tuesday, 4 July 2006, being the Last Trading Day;
- (ii) a discount of approximately 64.03% to the theoretical ex-entitlement price of approximately HK\$0.139 per Share (*Note*);
- (iii) a discount of approximately 66.22% to the average of the closing prices of HK\$0.148 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

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## LETTER FROM THE BOARD

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- (iv) a discount of approximately 64.29% to the average of the closing prices of HK\$0.140 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 11.11% over the audited net asset value per Share of approximately HK\$0.045 as at 31 December 2005; and
- (vi) a discount of approximately 83.33% to the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

*Note:* The theoretical ex-entitlement price is calculated based on the following formula:

$$\frac{(20 \times \text{closing price on the Last Trading Day}) + (7 \times \text{the Subscription Price})}{20+7}$$

20+7

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters and after having taken in account, among other things, i) the recent price performance of the Shares; ii) the business performance of the Company for the past two financial years; and iii) the potential investment opportunity to the Shareholders. The Directors consider that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Status of the Offer Shares**

The Offer Shares (when allotted, fully paid and issued) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

### **Fractions of Offer Shares**

The Company will not allot fractions of the Offer Shares. Any fractional entitlement to the Offer Shares will be aggregated and sold in the open market (if a premium, net of expenses, can be obtained) and the proceeds will be retained for the Company's own benefits.

### **Certificates for the Offer Shares**

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before Tuesday, 22 August 2006 to those entitled thereto by ordinary post at their own risk.

### **Rights of the Excluded Shareholders**

The Prospectus Documents have not been registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

Based on the Company's register of members on the Record Date, there are no Shareholders with registered address and correspondence address outside Hong Kong. Accordingly, all Shareholders are Qualifying Shareholders as at the Record Date.

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## LETTER FROM THE BOARD

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### Requirements under Cayman Islands laws

According to the Cayman Islands legal adviser of the Company, under Cayman Islands law and in accordance with the articles of association of the Company, i) the prospectus is not required to be registered in the Cayman Islands; ii) there is no requirement for the Company to obtain any permission relating to the Open Offer from any authority in the Cayman Islands; and iii) there is no requirement for the Open Offer to be approved by the Shareholders.

### Application for listing and dealings in the Offer Shares

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will commence on Thursday, 24 August 2006 and will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### Intention of controlling Shareholder

As at the Latest Practicable Date, the controlling Shareholder has not indicated whether it will subscribe for the Offer Shares to which it will be entitled under the Open Offer.

### REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

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.

The estimated net proceeds from the Open Offer will be approximately HK\$37 million (net of expenses of approximately HK\$1.74 million). The Board intends to apply the net proceeds as to (i) approximately HK\$2 million towards upstream and downstream integration in the principal line of business of the Group to enhance its profitability, including but not limited to the distribution of fabrics or chemical products or the production of packaging materials; (ii) approximately HK\$25 million towards possible diversified investment in the agricultural, energy and/or resources industries or other projects which the Board considers appropriate; and (iii) the remaining balance of approximately HK\$10 million for general working capital of the Group.

The estimated expenses in relation to the Open Offer of approximately HK\$1.74 million will be borne by the Company. The Board considers that the Open Offer is in the interests of the Company and its Shareholders as a whole, as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

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## LETTER FROM THE BOARD

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### UNDERWRITING ARRANGEMENTS

#### Underwriting Agreement

Date	:	5 July 2006
Underwriters	:	Kingston and Luen Fat
Number of Offer Shares underwritten	:	Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite 774,837,000 Offer Shares on a fully underwritten basis (of which Kingston has agreed to underwrite not more than 440,000,000 Offer Shares in the first place and Luen Fat has agreed to underwrite the remaining of not more than 334,837,000 Offer Shares in the second place)
Commission	:	2.5% of the aggregate Subscription Price in respect of the number of Offer Shares agreed to be underwritten by the Underwriters

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Offer Shares which have not been taken up. Accordingly, the Open Offer is fully underwritten. The Underwriters and their respective ultimate beneficial owners are third parties independent of and not connected with each other and the Company and its connected persons (as defined in the Listing Rules).

The 2.5% commission payable to each of the Underwriters was determined after arm's length negotiations between the Company and the Underwriters based on normal commercial terms and with reference to the market rates.

#### Termination of the Underwriting Agreement

**Kingston (on behalf of the Underwriters) may terminate the Underwriting Agreement by notice in writing to the Company, prior to 4:00 p.m. on Thursday, 17 August 2006 or such other time as may be agreed between the Underwriters and the Company if:**

- (1) in the reasonable opinion of Kingston (on behalf of the Underwriters), the success of the Open Offer would be materially and adversely affected by:**
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Kingston (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or**

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## LETTER FROM THE BOARD

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- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Kingston (on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Kingston (on behalf of the Underwriters) is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Kingston (on behalf of the Underwriters) will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer.

Kingston (on behalf of the Underwriters) shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or
- (2) any Specified Event comes to the knowledge of the Underwriters,

then and, in such case, Kingston (on behalf of the Underwriters) may, by notice in writing given to the Company prior to the Latest time for Termination, rescinds the Underwriting Agreement and thereupon the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party in respect of any matter or thing arising out of and in connection with the Underwriting Agreement (save for any antecedent breaches thereof) and the Open Offer shall not proceed.

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## LETTER FROM THE BOARD

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### Conditions of the Open Offer

The Open Offer is conditional upon:

- (1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and Companies Ordinance not later than the date of despatch of the Prospectus Documents;
- (2) the posting of the Prospectus Documents to the Qualifying Shareholders on or before the date of despatch of the Prospectus Documents;
- (3) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares on or before the Latest Time for Termination.

In the event of the said conditions not being fulfilled before the Latest Time for Termination or the respective dates aforesaid (or such other time or date as the Company and Kingston (on behalf of the Underwriters) may agree), the Underwriting Agreement shall terminate and all obligations and liabilities of the parties thereunder shall forthwith cease and determine and no party shall have any claim against the others (save for any antecedent breaches thereof) and the open offer shall not proceed.

### WARNING OF THE RISK OF DEALING IN THE SHARES

**The Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriters not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed “Termination of the Underwriting Agreement” in the section headed “Underwriting arrangements” in this Prospectus). Accordingly, the Open Offer may or may not proceed.**

**The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

**The Shareholders should note that the Shares have been dealt in on an ex-entitlement basis commencing from Tuesday, 25 July 2006 and that dealing in Shares will take place while the conditions to which the Underwriting Agreement is subject to remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject to are fulfilled (which is expected to be on Thursday, 17 August 2006), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.**



## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Open Offer:

	As at the Latest Practicable Date		Immediately after completion of the Open Offer (assuming no Qualifying Shareholder take up his/her/its entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)	
	Shares (approx.)	%	Shares (approx.)	%	Shares (approx.)	%
Legend Win Profits Limited ( <i>Note</i> )	1,567,500,000	70.81	1,567,500,000	52.45	2,116,125,000	70.81
Underwriters:						
– Kingston	–	–	440,000,000	14.72	–	–
– Luen Fat	–	–	334,837,000	11.20	–	–
Other Shareholders	646,320,000	29.19	646,320,000	21.63	872,532,000	29.19
Total	<u>2,213,820,000</u>	<u>100.00</u>	<u>2,988,657,000</u>	<u>100.00</u>	<u>2,988,657,000</u>	<u>100.00</u>

*Note:*

These 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.

The Board will procure the Underwriters to place down any Offer Shares to be taken up by any of them to the independent third parties not connected with the Company and its connected persons (as defined in the Listing Rules) and concert parties of the Company. The Company will use its best endeavours to make prior arrangements before completion of the Open Offer to ensure the minimum public float is maintained immediately after the issue of the Offer Shares.

### FUND RAISING ACTIVITIES OF THE COMPANY

The Company did not have any capital raising activities in the last twelve months immediately before the date of the Announcement and the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### ADJUSTMENTS IN RELATION TO THE OPTIONS

Pursuant to the terms of the Share Option Scheme, adjustments to the outstanding Options are required to be made due to the issue of Offer Shares and upon the Open Offer becoming unconditional. The Company will instruct its auditors to review and certify the basis of such adjustments pursuant to the Share Option Scheme and in accordance with the Listing Rules and the supplemental guidelines issued by the Stock Exchange. The Company will inform the holders of the Options of the adjustments accordingly. Such adjustments will be set out in the Company's announcement of the results of the Open Offer.

### BUSINESS REVIEW

During the year of 2005, 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. The Directors 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 of 2005, 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.

For the first half of 2006, the Group continues to engage in the design, manufacture and sale of toys and decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the period, the Group has experienced improved sales of its toy and gift products as compared with the same period in 2005. Such increase in sales is a result of the improvement of the global economy and the increased marketing effort of the Group. In addition, as MFF has become a subsidiary of the Group as a result of the acquisition of an additional 33% interest in MFF by the Group in December 2005, the consolidation of the results of MFF has also contributed to the increase in the revenue of the Group.

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## LETTER FROM THE BOARD

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### FINANCIAL AND TRADING PROSPECTS

The Directors are optimistic about the performance of the Group for the full year as the global economy continues to flourish. Moving forward, the Group will continue to invest in research and development and to develop new series of products with add-on features and functions. The Group will continue to develop its business by expanding its sales team and distribution channels in North America, Europe and the PRC. In addition, the Group will apply part of the net proceeds from the Open Offer to explore other investment opportunities in the agricultural, energy and/or resources industries or other projects that have earning potentials to diversity its business.

### PROCEDURES FOR ACCEPTANCE

An Application Form is enclosed with this Prospectus which entitles you to accept any number of Offer Shares up to the number of Offer Shares provisionally allotted to you as set out in the Application Form. If you are a Qualifying Shareholder and you wish to accept your assured allotment of Offer Shares to which you are entitled as specified in the enclosed Application Form or you wish to accept any number less than your assured entitlement, you must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the aggregate subscription price in respect of such number of Offer Shares you have accepted with the Registrar, Tengis Limited, 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by not later than 4:00 p.m. on Monday, 14 August 2006. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Kiu Hung International Holdings Limited-OOA" and crossed "Account Payee Only".

It should be noted that unless the Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Monday, 14 August 2006, that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions, the subscription monies will be refunded, without interest, by sending a cheque made out to the relevant Shareholder named on the Application Form (or in the case of joint Shareholders, to the first-named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholder(s) to the address specified in the register of members of the Company.

The Application Form contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements under the Open Offer.

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## LETTER FROM THE BOARD

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All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any Application Form in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form is for use only by the person(s) named therein and is not transferable.

No receipt will be issued in respect of any acceptance monies received.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Prospectus.

Yours faithfully

By order of the Board

**Kiu Hung International Holdings Limited**

**Hui Kee Fung**

*Chairman*

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following information has been extracted from the audited consolidated financial statements of the Group for each of the three years ended 31 December 2005. Grant Thornton, being the Company's auditor, has not issued any qualified opinion on the Group's financial statements for the three preceding financial years.

**Consolidated income statement**

*For the year ended 31 December 2005*

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	67,528	80,674	84,046
Cost of sales	<u>(44,705)</u>	<u>(59,715)</u>	<u>(56,396)</u>
<b>Gross profit</b>	22,823	20,959	27,650
Other income	6,631	3,286	4,127
Distribution costs	(6,601)	(11,889)	(7,445)
Administrative expenses	(17,709)	(19,361)	(18,326)
Other operating expenses	<u>(771)</u>	<u>(1,626)</u>	<u>(7,434)</u>
<b>Operating profit/(loss)</b>	4,373	(8,631)	(1,428)
Finance costs	(3,533)	(3,549)	(2,397)
Share of loss of a jointly controlled entity	(869)	(487)	–
Share of (loss)/profit of an associate	<u>(335)</u>	<u>(65)</u>	<u>400</u>
<b>Loss before income tax</b>	(364)	(12,732)	(3,425)
Income tax credit	<u>323</u>	<u>790</u>	<u>169</u>
Loss for the year	<u><u>(41)</u></u>	<u><u>(11,942)</u></u>	<u><u>(3,256)</u></u>
<b>Attributable to:</b>			
Equity holders of the Company	(41)	(11,888)	(3,254)
Minority interests	<u>–</u>	<u>(54)</u>	<u>(2)</u>
	<u><u>(41)</u></u>	<u><u>(11,942)</u></u>	<u><u>(3,256)</u></u>
	<i>HK cent</i>	<i>HK cent</i>	<i>HK cent</i>
<b>Basic loss per share for loss attributable to the equity holders of the Company</b>	<u><u>(0.0019)</u></u>	<u><u>(0.54)</u></u>	<u><u>(0.15)</u></u>

**Consolidated Balance Sheet***As at 31 December 2005*

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	66,369	60,318	72,653
Prepaid land lease payments	6,118	6,270	6,422
Investment property	400	400	4,700
Intangible assets	–	–	5,384
Interest in an associate	–	335	400
Interest in a jointly controlled entity	–	27,550	–
Amount due from a related company	2,619	–	–
Deferred tax assets	1,987	2,219	1,350
	<u>77,493</u>	<u>97,092</u>	<u>90,909</u>
<b>Current assets</b>			
Inventories	7,609	7,059	12,593
Trade and bills receivables	12,749	1,379	6,365
Prepayment, deposits and other receivables	1,796	2,282	3,291
Amount due from an associate	–	1,487	1,162
Amount due from a related company	5,513	–	–
Tax recoverable	126	28	–
Financial assets at fair value through profit or loss/Short term investments	286	306	11,043
Cash at banks and in hand	48,034	56,616	49,147
	<u>76,113</u>	<u>69,157</u>	<u>83,601</u>
<b>Current liabilities</b>			
Trade and bills payables	10,858	7,179	7,997
Other payables and accruals	5,655	7,585	6,882
Capital contribution payable to a jointly controlled entity	–	13,983	–
Provision for tax	263	3,546	14,839
Borrowings	30,650	30,246	20,781
	<u>47,426</u>	<u>62,539</u>	<u>50,499</u>
<b>Net current assets</b>	<u>28,687</u>	<u>6,618</u>	<u>33,102</u>
<b>Total assets less current liabilities</b>	<u>106,180</u>	<u>103,710</u>	<u>124,011</u>
<b>Non-current liabilities</b>			
Borrowings	2,251	2,819	13,162
Deferred tax liabilities	3,764	3,726	3,729
	<u>6,015</u>	<u>6,545</u>	<u>16,891</u>
<b>Net assets</b>	<u>100,165</u>	<u>97,165</u>	<u>107,120</u>
<b>EQUITY</b>			
<b>Equity attributable to Company's equity holders</b>			
Share capital	44,277	44,277	44,277
Reserves	55,888	52,888	62,789
Minority Interest	–	–	54
<b>Total equity</b>	<u>100,165</u>	<u>97,165</u>	<u>107,120</u>

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated income statements of the Company for each of the two years ended 31 December 2005, the audited consolidated balance sheets of the Company as at 31 December 2005 and 2004, the audited balance sheets of the Company as at 31 December 2005 and 2004, and the audited consolidated cash flow statements of the Company for each of the two years ended 31 December 2005, the audited consolidated statements of changes in equity of the Company for each of the two years ended 31 December 2005 together with accompanying notes extracted from the 2005 annual report and accounts of the Company:

**Consolidated income statement***For the year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Revenue</b>	6	67,528	80,674
Cost of sales		<u>(44,705)</u>	<u>(59,715)</u>
<b>Gross profit</b>		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		<u>(771)</u>	<u>(1,626)</u>
<b>Operating profit/(loss)</b>	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		<u>(335)</u>	<u>(65)</u>
<b>Loss before income tax</b>		(364)	(12,732)
Income tax credit	9	<u>323</u>	<u>790</u>
Loss for the year		<u><u>(41)</u></u>	<u><u>(11,942)</u></u>
<b>Attributable to:</b>			
Equity holders of the Company	10	(41)	(11,888)
Minority interests		<u>–</u>	<u>(54)</u>
		<u><u>(41)</u></u>	<u><u>(11,942)</u></u>
		<i>HK cent</i>	<i>HK cent</i>
<b>Basic loss per share for loss attributable to the equity holders of the Company</b>	11	<u><u>(0.0019)</u></u>	<u><u>(0.54)</u></u>

**Consolidated balance sheet***As at 31 December 2005*

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



**Balance sheet***As at 31 December 2005*

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

**Consolidated cash flow statement***For the year ended 31 December 2005*

	<b>2005</b>	<b>2004</b>
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>		
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)
<i>Net cash (used in)/generated from operating activities</i>	(5,145)	11,870

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Cash flows from investing activities</b>			
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	<i>31(a)</i>	529	–
Proceeds from disposal of subsidiaries, net of cash disposed of	<i>31(b)</i>	2,041	91
Decrease in amount due from a related company		2,900	–
Interest received		344	242
Net cash used in investing activities		<u>(5,077)</u>	<u>(2,808)</u>
<b>Cash flows from financing activities</b>			
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)
<i>Net cash generated from/(used in) financing activities</i>		<u>1,029</u>	<u>(1,593)</u>
<b>Net (decrease)/increase in cash at banks and in hand</b>		(9,193)	7,469
<b>Cash at banks and in hand at 1 January</b>		56,616	49,147
<b>Effect of foreign exchange rate changes, on cash held</b>		611	–
<b>Cash at banks and in hand at 31 December</b>		<u><u>48,034</u></u>	<u><u>56,616</u></u>

**Consolidated statement of changes in equity***for the year ended 31 December 2005*

	Equity attributable to equity holders of the Company			Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained profits 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)
<b>Balance at 31 December 2004, as restated</b>	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)

	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 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
<b>Balance at 31 December 2005</b>	<b>44,277</b>	<b>14,595</b>	<b>41,293</b>	<b>–</b>	<b>100,165</b>

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

**Notes to the financial statements**

*For the year ended 31 December 2005*

**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
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.

### 2.2 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.

## 2.4 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.

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

	Effect of adopting			Total HK\$'000
	HKAS 17 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKAS 40 & HK(SIC) Int 21 HK\$'000	
<b>Year ended 31 December 2005</b>				
<b>Decrease/(Increase) in loss for the year</b>				
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	<u>1,413</u>	<u>(868)</u>	<u>–</u>	<u>545</u>
Decrease/(Increase) in basic loss per share (HK cent)	<u>0.06</u>	<u>(0.04)</u>	<u>–</u>	<u>0.02</u>



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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>4</sup> 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.

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.

### 3.5 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.

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.

### 3.10 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.

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.

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.

#### (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.

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.

(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.

### **3.16 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.

### **3.18 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.

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.

### **3.20 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;
- (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 belows:

##### **Leasehold land and buildings and Investment property**

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 toppers, pencil sharpeners and photo frames.

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

There were no intersegment sales and transfers between segments.

**(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	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>31,838</u>	<u>39,741</u>	<u>35,690</u>	<u>40,933</u>	<u>67,528</u>	<u>80,674</u>
Segment results	<u>(645)</u>	<u>(5,545)</u>	<u>(723)</u>	<u>(2,171)</u>	(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					<u>(41)</u>	<u>(11,942)</u>
Segment assets	44,021	37,641	76,446	83,399	120,467	121,040
Unallocated assets					33,139	45,209
Total assets					<u>153,606</u>	<u>166,249</u>
Segment liabilities	17,274	6,779	10,899	19,615	28,173	26,394
Unallocated liabilities					25,268	42,690
Total liabilities					<u>53,441</u>	<u>69,084</u>
Other segment information:						
Depreciation and amortisation	1,899	3,685	3,624	3,375	5,523	7,060
Unallocated amounts					828	1,078
					<u>6,351</u>	<u>8,138</u>
Impairment loss on goodwill	-	-	-	-	<u>261</u>	-
Other non-cash expenses	6	4,254	-	1,654	6	5,908
Unallocated amounts					205	1,375
					<u>211</u>	<u>7,283</u>
Capital expenditure	492	162	10,419	5,027	<u>10,911</u>	<u>5,189</u>

**(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	<u>3,005</u>	<u>15,073</u>	<u>48,611</u>	<u>46,703</u>	<u>13,161</u>	<u>14,336</u>	<u>2,751</u>	<u>4,562</u>	<u>67,528</u>	<u>80,674</u>
Segment results	<u>55</u>	<u>2,475</u>	<u>1,012</u>	<u>(7,878)</u>	<u>260</u>	<u>(1,824)</u>	<u>41</u>	<u>(489)</u>	<u>1,368</u>	<u>(7,716)</u>
Other segment information:										
Segment assets	143,232	165,294	9,391	836	439	102	544	17	<u>153,606</u>	<u>166,249</u>
Capital expenditure	10,911	5,189	-	-	-	-	-	-	<u>10,911</u>	<u>5,189</u>

**6. REVENUE AND OTHER INCOME****(a) Revenue**

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

**(b) Other income**

	Group	
	2005 HK\$'000	2004 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 ( <i>note 31(b)</i> )	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	<u>2,792</u>	<u>1,412</u>
	<u>6,631</u>	<u>3,286</u>



## 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)	–
	<u>447</u>	<u>460</u>
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
	<u>6,351</u>	<u>6,869</u>
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
	<u>–</u>	<u>561</u>
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
	<u>15,848</u>	<u>16,962</u>
Write off of property, plant and equipment	<u>29</u>	<u>25</u>

**8. FINANCE COSTS**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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
	<u>3,533</u>	<u>3,549</u>

**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.

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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 ( <i>note 30</i> )	(90)	(888)
Total income tax credit	<u>(323)</u>	<u>(790)</u>

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

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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	<u>(323)</u>	<u>(790)</u>

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 HK\$'000	2004 HK\$'000
Wages and salaries	15,030	16,104
Pension costs – defined contribution plans	818	858
	<u>15,848</u>	<u>16,962</u>

## (b) Directors' and senior management's remuneration

*Directors' emoluments*

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Contribution to defined contribution plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>For the year ended 31 December 2005</b>				
<i>Executive directors</i>				
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
<i>Independent non-executive directors</i>				
Mr. Kung King Ching, Conrad	–	–	–	–
Dr. Lin Al Yue	–	–	–	–
Mr. Peng Guanghui	20	–	–	20
Mr. Sy Chin Mong, Stephen	–	–	–	–
	<u>20</u>	<u>3,360</u>	<u>336</u>	<u>3,716</u>
<b>For the year ended 31 December 2004</b>				
<i>Executive directors</i>				
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
<i>Independent non-executive directors</i>				
Dr. Lin Al Yue	–	–	–	–
Mr. Peng Guanghui	–	–	–	–
Mr. Sy Chin Mong, Stephen	–	–	–	–
	<u>–</u>	<u>3,370</u>	<u>322</u>	<u>3,692</u>

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:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Basic salaries and other allowances	1,012	995
Contribution to pensions schemes	76	90
	<u>1,088</u>	<u>1,085</u>

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:

<b>Emolument band</b>	<b>Number of highest paid individuals</b>	
	<b>2005</b>	<b>2004</b>
HK\$Nil – HK\$1,000,000	<u>2</u>	<u>2</u>

## 13. PROPERTY, PLANT AND EQUIPMENT

## Group

	Leasehold land and buildings <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
	<i>(Note (a))</i>							
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	<u>19,691</u>	<u>25,585</u>	<u>496</u>	<u>10,282</u>	<u>14,174</u>	<u>1,230</u>	<u>1,195</u>	<u>72,653</u>
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	<u>18,516</u>	<u>25,727</u>	<u>348</u>	<u>3,953</u>	<u>9,989</u>	<u>948</u>	<u>837</u>	<u>60,318</u>
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	<u>18,516</u>	<u>25,727</u>	<u>348</u>	<u>3,953</u>	<u>9,989</u>	<u>948</u>	<u>837</u>	<u>60,318</u>

## Group

	Leasehold land and buildings HK\$'000 (Note (a))	Buildings improvements 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
<b>Year ended 31 December 2005</b>								
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	<u>19,360</u>	<u>25,200</u>	<u>263</u>	<u>3,376</u>	<u>16,705</u>	<u>931</u>	<u>534</u>	<u>66,369</u>
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	<u>19,360</u>	<u>25,200</u>	<u>263</u>	<u>3,376</u>	<u>16,705</u>	<u>931</u>	<u>534</u>	<u>66,369</u>
At cost	-	-	2,093	10,198	25,369	3,996	3,435	45,091
At professional valuation	<u>19,360</u>	<u>25,200</u>	-	-	-	-	-	<u>44,560</u>
At 31 December 2005	<u>19,360</u>	<u>25,200</u>	<u>2,093</u>	<u>10,198</u>	<u>25,369</u>	<u>3,996</u>	<u>3,435</u>	<u>89,651</u>
At cost	-	-	2,093	9,936	16,746	3,581	3,386	35,742
At professional valuation	<u>18,516</u>	<u>25,727</u>	-	-	-	-	-	<u>44,243</u>
At 31 December 2004	<u>18,516</u>	<u>25,727</u>	<u>2,093</u>	<u>9,936</u>	<u>16,746</u>	<u>3,581</u>	<u>3,386</u>	<u>79,985</u>

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.

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:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	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.

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:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>6,118</u>	<u>6,270</u>

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**

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount as at 1 January and 31 December	<u>400</u>	<u>400</u>

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**

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

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

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		Principal activities	Place of operations
			Direct	Indirect		
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	50,500 ordinary shares of US\$1 each	100%	–	Investment holding	Hong Kong
Kiu Hung International Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (Note (a))	–	100%	Investment holding	Hong Kong
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (Note (a))	–	100%	Investment holding	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 Gift toys Co., Ltd. 福建奇嘉禮品玩具有限公司 (Note (d))	PRC	Renminbi ("RMB") 10,000,000	–	100%	Manufacture and trading of decorative gift items and toys	PRC
Newgary Development Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (Note (a))	–	100%	Property holding	Hong Kong
Top Point Investments Limited	BVI	100 ordinary shares of US\$1 each	–	100%	Investment in securities	Hong Kong
Kiu Hung Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment and property holding	Hong Kong

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

*Notes:*

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).
- (b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US\$5,000,000 which has been fully paid up.
- (c) Qiao Xiong Toys Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1996. Its registered capital is HK\$10,000,000 which has been fully paid up.
- (d) Fujian Kcare Gift toys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.
- (e) 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

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	1
Share of post-acquisition result of an associate	–	334
	<u>–</u>	<u>335</u>

Movements in the interest in an associate are as follows:

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

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:

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

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 for the Group during the year.

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

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

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.

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

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

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

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>		
– Amount due from Kiu Hung Holdings Limited	2,619	–
<b>Current</b>		
– Amount due from Kiu Hung Holdings Limited	5,513	–
	<u>8,132</u>	<u>–</u>

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**

	<b>Goodwill</b>	<b>Production and distribution rights</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying value at 1 January 2004	717	4,667	5,384
Impairment	–	(3,667)	(3,667)
Dissolution of a subsidiary	(448)	–	(448)
Amortisation charge for the year	(269)	(1,000)	(1,269)
<b>Carrying value at 31 December 2004</b>	<u>–</u>	<u>–</u>	<u>–</u>
Gross amount at 31 December 2004	–	5,000	5,000
Accumulated impairment	–	(3,667)	(3,667)
Accumulated amortisation	–	(1,333)	(1,333)
<b>Carrying value at 31 December 2004</b>	<u>–</u>	<u>–</u>	<u>–</u>
Carrying value at 1 January 2005	–	–	–
Acquisition of a subsidiary	261	–	261
Impairment	(261)	–	(261)
<b>Carrying value at 31 December 2005</b>	<u>–</u>	<u>–</u>	<u>–</u>
Gross amount at 31 December 2005	261	5,000	5,261
Accumulated impairment	(261)	(3,667)	(3,928)
Accumulated amortisation	–	(1,333)	(1,333)
<b>Carrying value at 31 December 2005</b>	<u>–</u>	<u>–</u>	<u>–</u>

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

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

## 22. TRADE AND OTHER RECEIVABLES

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	12,749	1,379
Prepayments, deposits and other receivables	1,796	2,282
	<u>14,545</u>	<u>3,661</u>

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:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
0 – 30 days	6,679	342
31 – 90 days	5,990	1,037
91-180 days	80	–
	<u>12,749</u>	<u>1,379</u>

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

	<b>Group</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Listed equity securities in Hong Kong held for trading, at fair value	<u>286</u>	<u>306</u>
Market value of listed securities held as at 31 December	<u>286</u>	<u>306</u>

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

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>5,655</u>	<u>7,585</u>
	<u><u>16,513</u></u>	<u><u>14,764</u></u>

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

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>10,858</u>	<u>7,179</u>

## 26. BORROWINGS

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Non-current</b>		
Interest bearing bank loans	2,203	2,609
Finance lease liabilities	48	210
	2,251	2,819
<b>Current</b>		
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.

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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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	–	–
	30,742	28,570	1,780	2,973
Wholly repayable within 5 years	235	738	–	–
After the fifth year	30,977	29,308	1,780	2,973
	30,977	29,308	1,780	2,973

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

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

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
	<u>144</u>	<u>784</u>
Less: Portion due within one year included under current liabilities	(96)	(574)
Non-current portion included under non-current liabilities	<u>48</u>	<u>210</u>

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:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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
	<u>24,663</u>	<u>26,018</u>

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.

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

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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

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

## 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.

## 29. RESERVES

### Group

	Other reserves						Sub-total	Retained profits	Total
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Assets revaluation reserve			
	(note (a))	(note (b))					HK\$'000	HK\$'000	
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

## Group

	Other reserves						Sub-total	Retained profits	Total						
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Assets revaluation reserve									
										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						

## Company

	<b>Share premium HK\$'000</b>	<b>Capital reserve HK\$'000 (note (b))</b>	<b>Retained profits/ (Accumulated loss) HK\$'000</b>	<b>Total HK\$'000</b>
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	<u>1,658</u>	<u>125,161</u>	<u>(24,123)</u>	<u>102,696</u>

- (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**

	<b>Accelerated depreciation allowances</b>		<b>Revaluation of properties</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>1,101</u>	<u>1,265</u>	<u>2,663</u>	<u>2,461</u>	<u>3,764</u>	<u>3,726</u>

**Deferred tax assets**

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

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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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)	–
	<u>          </u>	<u>          </u>
Net liabilities acquired	(261)	–
Goodwill	261	–
	<u>          </u>	<u>          </u>
Consideration	–	–
	<u>          </u>	<u>          </u>
Satisfied by:		
Cash	–	–
	<u>          </u>	<u>          </u>

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cash consideration	–	–
Cash acquired	529	–
	<u>          </u>	<u>          </u>
Net cash inflow in respect of the acquisition of a subsidiary	529	–
	<u>          </u>	<u>          </u>

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.

**(b) Disposal of subsidiaries**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
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)
	<u>10,360</u>	<u>23</u>
Gains on disposal of subsidiaries	<u>2,740</u>	<u>69</u>
Consideration	<u><u>13,100</u></u>	<u><u>92</u></u>
Satisfied by:		
Cash	2,068	92
Receivable from a related company	11,032	–
	<u><u>13,100</u></u>	<u><u>92</u></u>

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

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Cash consideration received	2,068	92
Cash disposed of	(27)	(1)
Net cash inflow in respect of the disposal of subsidiaries	<u><u>2,041</u></u>	<u><u>91</u></u>

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:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Within one year	<u>25</u>	<u>25</u>

**(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:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Within one year	178	244
In the second to fifth years, inclusive	<u>–</u>	<u>178</u>
	<u>178</u>	<u>422</u>

**(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:

	<b>2005</b> <i>HK\$'000</i>	<b>Company</b> <b>2004</b> <i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>14,000</u>	<u>39,000</u>

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**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Sales of goods to Micacles for Fun (HK) Limited ("MFF"), an associate of the Group	<u>2,524</u>	<u>6,728</u>

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.

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.

**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.

### **3. INDEBTEDNESS**

#### **Borrowings**

As at the close of business on 30 June 2006 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus), the Group had outstanding borrowings of approximately HK\$37.5 million comprising short-term bank borrowings of approximately HK\$35.5 million and long-term bank borrowings of approximately HK\$2 million. In addition, the Group had obligation under finance leases of approximately HK\$96,000.

As at 30 June 2006, the Group's bank borrowings were secured by first legal charges on certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK\$9.9 million and HK\$9.2 million, respectively.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, none of the companies comprising the Group had outstanding at the close of business on 30 June 2006 any mortgages, term loans, charges or debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness or contingent liabilities of the Group since 30 June 2006.

### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited financial statements of the Company were made up.

### **5. WORKING CAPITAL**

The Directors are of the opinion that, based on the present available facilities, internal resources of the Group, the estimated net proceeds from the Open Offer and in the absence of unforeseeable circumstances, the Group will have sufficient working capital to satisfy its requirement for the next twelve months from the date of the Prospectus.

## 1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the net tangible assets of the Group as if the Open Offer had taken place on 31 December 2005.

The following is a summary of the unaudited pro forma consolidated net tangible assets of the Group, assuming the issue of 774,837,000 Company's shares had been completed as at 31 December 2005 for the purpose of illustrating how the transaction might have affected the financial position of the Group. As it is prepared for illustrative purpose only, it may not purport to represent what the assets and liabilities of the Group are on the completion of the transaction.

The statement of unaudited pro forma consolidated net tangible assets of the Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005 extracted from the annual report of the Company for the year ended 31 December 2005, and adjusted for the transaction of the issue of 774,837,000 Company's shares.

	As at 31 December 2005 (approximately) <i>HK\$'000</i> (Note 1)	Estimated net proceeds from the Open Offer (approximately) <i>HK\$'000</i> (Note 2)	Unaudited pro forma adjusted amount (approximately) <i>HK\$'000</i>
Audited consolidated net tangible assets attributable to the equity holders of the Company	<u>98,178</u>	<u>37,000</u>	<u>135,178</u>
Audited consolidated net tangible asset value per Share as at 31 December 2005			<u>HK4.43 cents</u>
Unaudited pro forma adjusted consolidated net tangible asset value per Share			<u>HK4.52 cents</u> (Note 3)

*Notes:*

- (1) The information is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 31 December 2005 of approximately HK\$100,165,000, as extracted from the annual report of the Company for the year ended 31 December 2005 with an adjustment for the deferred assets as at 31 December 2005 of approximately HK\$1,987,000.
- (2) The adjustment reflects the net cash infusion of HK\$37 million in respect of the issue of 774,837,000 Offer shares pursuant to the Open Offer exercise, after the deduction of related expenses of approximately HK\$1.74 million.
- (3) The calculation is based on the assumption that the issue of 774,837,000 shares is completed and the proceeds therefrom are received.

**2. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

Set out below is the text of the report, prepared for the purpose of incorporation in this Prospectus, from the reporting accountants of the Group, Johnny Chan & Co. Limited, in connection with the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group:

**JOHNNY CHAN & CO. LIMITED**

Certified Public Accountants  
Room 509 Bank of America Tower  
12 Harcourt Road, Central  
Hong Kong

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**陳建恒會計師事務所有限公司**

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傳真 : (852) 2522 2977

31 July 2006

The Board of Directors  
Kiu Hung International Holdings Limited  
14th Floor  
Yale Industrial Centre  
61-63 Au Pui Wan Street  
Fo Tan, Shatin  
Hong Kong

Dear Sirs

**Kiu Hung International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)**

We report on the unaudited pro forma financial information (Pro Forma Financial Information”) of the Group set out on page 77 in Appendix II of the Company’s circular (the “Circular”) dated 31 July 2006, which have been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed issue of 774,837,000 shares might have affected the assets and liabilities of the Group as at 31 December 2005.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to AG 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.



It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements HKSIR 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29 of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

**Opinion**

In our opinion:

- (a) The statement of unaudited pro forma consolidated net tangible assets of the Group as at 31 December 2005 has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the statement of unaudited pro forma consolidated net tangible assets of the Group as at 31 December 2005 as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully  
**Johnny Chan & Co. Limited**  
*Certified Public Accountants*  
Hong Kong

**1. RESPONSIBILITY STATEMENT**

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**2. SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon completion of the Open Offer, were and will be as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Shares	<u>100,000,000</u>
<i>Issued and fully paid:</i>		
2,213,820,000	Shares as at the Latest Practicable Date	44,276,400
<u>774,837,000</u>	Offer Shares to be issued pursuant to the Open Offer	<u>15,496,740</u>
<u>2,988,657,000</u>	Shares in issue immediately after the Open Offer	<u>59,773,140</u>

All Shares in issue and the Offer Shares rank and will rank *pari passu* in all respects with each other including as regards to dividends, voting and return of capital.

The Company had no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into, Shares as at the Latest Practicable Date.

Save for an aggregate of 94,500,000 outstanding Options which are eligible for exercise and to subscribe for up to an aggregate of 94,500,000 Shares at a subscription price of HK\$0.13 per Share (subject to adjustment) on or after 1 January 2007, no share or loan capital of any members of the Group had been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted as at the Latest Practicable Date.

The Shares are listed on the Stock Exchange. No part of the Shares is listed or dealt in, nor is listing of or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.

## 3. DISCLOSURE OF INTERESTS

## (A) Interests of Directors and Chief Executive

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Name of Directors	Number of Shares held	Capacity	Approximate shareholding
Hui Kee Fung (Note)	1,567,500,000 (L)	Interest of a controlled corporation	70.81%
Hui Ki Yau (Note)	1,567,500,000 (L)	Interest of a controlled corporation	70.81%

*L: Long Position*

*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.

- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (c) As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement which was significant in relation to the business of the Group taken as a whole.

**(B) Substantial Shareholders**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Number of Shares held	Capacity		Approximate shareholding
		Beneficial	Other	
Kingston ( <i>Note 1</i> )	440,000,000 (L)	–	440,000,000	14.72%
Chu Yuet Wah ( <i>Note 1</i> )	472,740,000 (L)	32,740,000	440,000,000	15.82%
Ma Siu Fong ( <i>Note 1</i> )	440,000,000 (L)	–	440,000,000	14.72%
Luen Fat ( <i>Note 2</i> )	334,837,000 (L)	–	334,837,000	11.20%
Yue Wai Keung ( <i>Note 2</i> )	334,837,000 (L)	–	334,837,000	11.20%
Legend Win Profits Limited ( <i>Note 3</i> )	1,567,500,000 (L)	1,567,500,000	–	70.81%

*L: Long Position*

*Notes:*

- 440,000,000 Shares represent the maximum number of Offer Shares Kingston as underwriter is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Kingston is deemed to be interested in 440,000,000 Shares under the SFO. The entire issued share capital of Kingston is owned as to 51% by Chu Yuet Wah and 49% by Ma Siu Fong. Chu Yuet Wah and Ma Siu Fong are therefore deemed to be interested in 440,000,000 Shares under the SFO.
- 334,837,000 Shares represent the maximum number of Offer Shares Luen Fat as underwriter is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Luen Fat is deemed to be interested in 334,837,000 Shares under the SFO. The entire issued share capital of Luen Fat is owned as to 41% by Yue Wai Keung. Yue Wai Keung is therefore deemed to be interested in 334,837,000 Shares under the SFO.
- 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.

Save as disclosed herein, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested or had short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

#### 4. DIRECTORS AND SENIOR MANAGEMENT

##### Executive Directors

**Mr. HUI Kee Fung**, aged 46, 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, an Invited Consultant of Fujian Federation of Industry and Commerce, the Vice-Chairman of Putian Foreign Investors' Association in Fujian, the PRC, a 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. Mr. Hui 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 Putian 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 38, is an Executive Director of the Company and is responsible for the financial affairs, overall management and purchasing affairs of the Group. She 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.

##### Independent non-executive Directors

**Mr. PENG Guanghui**, aged 43, 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 42, 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. TANG Rongzu**, aged 63, is the Deputy General Manager of Putian City North Coast Wood Products Co., Ltd, in the People's Republic of China. Mr. Tang had also worked as the General Manager of Putian city Processing and Assembly with Supplied Materials and Parts Company and the Chief Executive of Putian City Customs Declaration Company for over 15 years. Mr. Tang has over 20 years of experience in the trading industry.

### 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 accounting, 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 and finance.

**Mr. HUANG Sheng Hai**, aged 41, 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 Manager 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 Fujian Kcare Giftoys Co., Ltd and is responsible for the production management and financial affairs of Fujian Kcare Giftoys Co., Ltd. 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 Fujian Kcare Giftoys Co., Ltd 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 38, 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.

## 5. CORPORATE INFORMATION

<b>Registered office</b>	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman Cayman Islands
<b>Head office and principal place of business in Hong Kong</b>	14th Floor Yale Industrial Centre 61-63 Au Pui Wan Street Fo Tan, Shatin Hong Kong
<b>Legal adviser to the Company in relation to the Open Offer</b>	<i>As to Hong Kong law</i> Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central Hong Kong
<b>Legal adviser to the Company as to Cayman Islands law</b>	Conyers Dill & Pearman Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
<b>Auditors</b>	Grant Thornton Certified Public Accountants 13th Floor Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong  Johnny Chan & Co. Limited Certified Public Accountants Room 509, Bank of America Tower 12 Harcourt Road Central Hong Kong
<b>Principal bankers</b>	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
<b>Principal share registrar in the Cayman Islands</b>	Butterfield Fund Services (Cayman) Limited P.O. Box 705 Butterfield House 68 Fort Street George Town Grand Cayman Cayman Islands
<b>Branch share registrar in Hong Kong</b>	Tengis Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Authorised representatives</b>	Mr. HUI Kee Fung Mr. HUI Ki Yau
<b>Company secretary</b>	Mr. CHAN Kwok Yuen, Elvis, <i>CPA, FCCA</i>
<b>Qualified accountant</b>	Mr. CHAN Kwok Yuen, Elvis, <i>CPA, FCCA</i>

*Note:* CPA stands for Certified Public Accountants of the Hong Kong Institute of Certified Public Accountants.

FCCA stands for Fellow Member of the Chartered Association of Certified Accountants.

## 6. EXPERTS AND CONSENTS

Each of Johnny Chan & Co. Limited, a firm of Certified Public Accountants, and Conyers Dill & Pearman has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its letter in the case of Johnny Chan & Co. Limited and a summary of the advice given in the case of Conyers Dill & Pearman as set out in this Prospectus and references to its name in the form and context in which they appear respectively.



As at the Latest Practicable Date, each of Johnny Chan & Co. Limited and Conyers Dill & Pearman did not have any shareholding in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, direct or indirect, in any assets which have been, since 31 December 2005, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

## **7. BINDING EFFECT**

This Prospectus and the enclosed Application Form, and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance, so far as applicable.

## **8. EXPENSES**

The estimated expenses in relation to the Open Offer of approximately HK\$1.74 million will be borne by the Company.

## **9. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of each of the Prospectus Documents and the written consents of Johnny Chan & Co. Limited and Conyers Dill & Pearman referred to in the paragraph headed “Experts and consents” in this appendix have been delivered to the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.

## **10. LITIGATION**

As at the Latest Practicable Date and so far as the Directors are aware, there was no litigation or claims of material importance pending or threatened against the Company or any of its subsidiaries.

## **11. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this Prospectus and are or may be material:

- (a) the sale and purchase agreement dated 19 April 2005 entered into between Legend Wealth Holdings Limited, Mr Hui Kee Fung, Mr Hui Ki Yau, Madam Hui Hung Tan, Teresa and Kiu Hung Holdings Limited in relation to the disposal of the entire issued share capital of and the shareholder’s loan due by Huge Profit Enterprises Limited;
- (b) the sale and purchase agreement dated 17 December 2005 entered into between Pine Growth International Limited and Miracles For Fun, LLC in relation to the acquisition of 33% of the issued share capital of Miracles For Fun (HK) Limited; and
- (c) the Underwriting Agreement.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this Prospectus.

**12. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).
- (b) The English texts of this Prospectus and the accompanying Application Form shall prevail over their respective Chinese texts.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the existing registered office of the Company in Hong Kong at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong from the date of this Prospectus up to and including Monday, 14 August 2006:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2005;
- (c) the comfort letter from Johnny Chan & Co. Limited, the text of which is set out in Appendix II to this Prospectus;
- (d) the written consents referred to in the paragraph headed “Experts and consents” in this Appendix;
- (e) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (f) the circular of the Company date 13 January 2006 in relation to the acquisition of 33% of the issued share capital of Miracles For Fun (HK) Limited; and
- (g) this Prospectus.