



僑 雄 國 際 控 股 有 限 公 司  
**Kiu Hung International Holdings Limited**

(於開曼島註冊成立之有限公司)  
(Incorporated in the Cayman Islands with limited liability)

(股份代號 Stock Code : 0381)



**Annual Report 2006 年報**

## CONTENTS

	<i>Page</i>
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
MANAGEMENT DISCUSSION AND ANALYSIS	6
PROFILE OF DIRECTORS AND SENIOR MANAGEMENT	11
REPORT OF THE DIRECTORS	13
CORPORATE GOVERNANCE REPORT	21
INDEPENDENT AUDITORS' REPORT	25
AUDITED FINANCIAL STATEMENTS	
Consolidated Income Statement	26
Consolidated Balance Sheet	27
Balance Sheet	28
Consolidated Cash Flow Statement	29
Consolidated Statement of Changes in Equity	31
Notes to the Financial Statements	32

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. PENG Guanghui  
Mr. KUNG King Ching, Conrad  
Mr. TANG Rongzu

### COMPANY SECRETARY

Mr. CHAN Kwok Yuen, Elvis, CPA, FCCA

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor  
Yale Industrial Centre  
61-63 Au Pui Wan Street  
Fo Tan, Shatin  
Hong Kong

### AUDITORS

Grant Thornton  
Certified Public Accountants  
13th Floor  
Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### COMPANY HOMEPAGE/WEBSITE

<http://www.kiuhung.com>

### PRINCIPAL BANKERS

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

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

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

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705 George Town  
Grand Cayman  
KY1-1107  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## CHAIRMAN'S STATEMENT

On behalf of the board of the directors (the "Board") of Kiu Hung International Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present the annual results of the Group for the financial year ended 31 December 2006.

### RESULTS AND DIVIDENDS

For the financial year ended 31 December 2006, the Group was able to turnaround and recorded net profit attributable to shareholders of approximately HK\$1.1 million, equivalent to basic earnings per share of approximately HK0.0382 cent. The Board recommends the payment of a final dividend of HK0.01 cent per ordinary share in respect of the year.

### BUSINESS REVIEW

#### Toys and Gifts

During the year under review, the Group's toys and gifts business continued to be challenging. Nevertheless, the management has striven to boost its turnover by approximately 43% from HK\$67.5 million in 2005 to HK\$96.6 million in 2006 as the Group has intensified its marketing campaign with an aim to broaden its sales channel in North America and Europe. During the year, the Group has secured new orders from a number of prestigious customers. Gross profit margin was also improved as the management has rectified its operational management and increased its production efficiency. In addition, the Group has also developed new products with value-added features to enhance product profitability.

#### Decorative Flags and Garden Products

In order to increase the variety of our products and to improve our competitiveness in the decorative flags and garden products area, we commenced the distribution of decorative flags and garden products through the "Toland" brand name during the year. In addition, we have established a joint venture in the United States to strengthen the sales and marketing activities and facilitate the research and development functions of our decorative flags and garden products.

#### Olympic Mascots

In 2006, the Group has been appointed by the Beijing Organizing Committee of the Games of the XXIX Olympiad as an authorised supplier for the toy products of the Beijing 2008 Olympic Mascots. The Group has obtained the license to manufacture different kinds of Olympic related toys including plush toys, plastic toys, inflatable toys and electronic toys. Being the only company that is capable to supply nano-technology plush toys by applying the licensed Swedish Texcote Technology, we have competitive advantage over other mascot toys manufacturers. Our nano-technology mascot toys, with environmental friendly features of water repellence, stain resistance and anti-bacteria, have received encouraging response from our customers.

## CHAIRMAN'S STATEMENT

### Coal Mining

Riding on the stable toys and gifts business, the Group actively seized diversification opportunities to broaden its revenue base. The Group entered into a capital contribution agreement during the year and various acquisition agreements subsequent to year end date which enable the Group to effectively acquire the entire equity interest in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司, "Mingrunfeng"). The acquisition of Mingrunfeng has been approved by the shareholders of the Company at an extraordinary general meeting held on 16 April 2007.

Mingrunfeng owns the exploration license of a coal mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the People's Republic of China (the "PRC"). The coal mine has a site area of approximately 24.91 square kilometres which is situated only approximately 30 kilometres away from Huolinguole City and has close proximity to highways and railways. Mingrunfeng has obtained the exploration license, being the legal certificate for the entire exploration right of the coal mine, in April 2007.

According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting"), the coal mine has estimated coal resource of 106 million tones and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. In addition, as the coal mine has no igneous intrusions and little or no structural features, SRK Consulting concluded that there appears to be no issues that may cause significant impact on the mining of the coal mine. The current on site market price for the coal of the coal mine is around Renminbi 160 Yuan per tonne.

### PROSPECTS

Looking forward, we believe our newly diversified coal business is important for the Group as it is our first step to tap the energy and natural resources business. The acquisition provides a starting point for the Group to enter into a diversified and high growth development stage. Our future development strategy will be focused on two directions, energy and natural resources business and industrial business. I am confident that continuous economic growth in China will lead to an increasing demand for natural resources and energy. We expect the Mingrunfeng coal project will commence exploitation and make positive contribution to our Group by the end of 2007. Capitalising on a stable and well-established industrial business foundation, we will tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value.

For our toys and gifts business, being a licensed supplier of the Olympic products is an important milestone for the Group. It can be crucial for the future development of our domestic toys and gifts business as we can attract public awareness, raise our corporate image and strengthen our distribution channels in the PRC by selling our products through thousands of franchised outlets scattered in every province of the PRC. We believe mascot toys will be popular for the Beijing 2008 Olympics and will enhance our turnover and profitability.

## CHAIRMAN'S STATEMENT

For our decorative flags and garden products business, the acquisition of the "Toland" brand name, which is a renowned brand with a long history in the field of decorative flags and garden products in the US, will strengthen our foothold in the decorative flags and garden products business in North America. Since the decorative flags and garden products command a higher profit margin than traditional toys and gifts products, we are confident that our profitability will be further improved in the coming years.

Going forward, the Group will continue to explore other investment opportunities in the energy and natural resources industries with high profitability in order to expand our business scale and scope. With the committed efforts of the staff and management, we are confident in the prospects of the Group.

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, customers, business partners and suppliers, and also for the contribution and hard works of our management and staff in last year.

**HUI Kee Fung**

*Chairman*

Hong Kong, 27 April 2007

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL HIGHLIGHTS

For the financial year ended 31 December 2006, the Group recorded turnover of approximately HK\$96.6 million (2005: HK\$67.5 million), representing an increase of approximately 43% as compared with the preceding year. The Group's profit attributable to shareholders for the year was approximately HK\$1.1 million (2005: net loss of HK\$41,000). Basic earnings per share for the year was HK0.0382 cent (2005: loss per share of HK0.0015 cent (restated)).

### DIVIDEND

The board of directors recommends the payment of a final dividend of HK0.01 cent (2005: nil) per ordinary share in respect of the year, to the shareholders on the register of members as at 25 May 2007.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2007 to 25 May 2007, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the attendance at the annual general meeting of the Company to be held on 25 May 2007 and to qualify for the final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 17 May 2007.

### BUSINESS AND OPERATIONAL REVIEW

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. In 2006, revenue from toys and decorative gift items was approximately HK\$49.1 million (2005: HK\$31.8 million) and HK\$47.5 million (2005: HK\$35.7 million), respectively, accounting for approximately 51% and 49% respectively of the Group's total turnover. The North American market remained to be the most important market segment and accounted for approximately 73% (2005: 72%) of the Group's turnover. The increase in distribution costs by approximately 39% from approximately HK\$6.6 million in 2005 to approximately HK\$9.2 million for the year was consistent with the increase in the Group's turnover over the preceding year. The administrative expenses of the Group increased by approximately 44% from approximately HK\$17.7 million in 2005 to approximately HK\$25.5 million in 2006. Apart from the overall increase in administrative expenses as a result of the expansion of our Group's operations, the amortisation of share option costs of approximately HK\$4.6 million recognised in 2006 in relation to share options being granted to our staff during the year also contributed to such increase. Such recognition of share option costs was made in accordance with the relevant Hong Kong Financial Reporting Standards and did not have any impact on the cash flow of the Group for the year.

The toys and gifts market for the year of 2006 remained competitive. Nevertheless, the Group was able to increase its sales by approximately 43% as we have intensified our marketing campaign in order to broaden our sales channel in North America and Europe. During the year, new orders have been received from a number of renowned customers. Gross profit margin has also improved from approximately 33.8% in 2005 to approximately

## MANAGEMENT DISCUSSION AND ANALYSIS

36.8% in 2006 as the management has rectified its operational management and improved its production efficiency. In addition, the management has developed new products with value-added features to enhance product profitability. With the increase in turnover and improvement in profit margin, the Group managed to turnaround and became profitable for the year.

During the year, we commenced the distribution of decorative flags and garden products through the "Toland" brand name with an aim to increase our product variety and to improve our competitiveness in the decorative flags and garden products market. In order to strengthen the sales and marketing activities and to facilitate the research and development functions, we have also established a jointly controlled entity in the United States which is responsible for the marketing and development of our decorative flags and garden products for the North American market.

In 2006, the Group has become a licensed supplier for the mascot toy products of the Beijing 2008 Olympic. We have obtained the license to manufacture different toys categories including plush toys, plastic toys, inflatable toys and electronic toys. In addition, we are the sole manufacturer who is able to produce nano-technology plush toys by applying the licensed Swedish Texcote Technology. With environmental friendly features of water repellence, stain resistance and anti-bacteria, our nano-technology mascot toys have received encouraging response in the PRC market.

### MATERIAL ACQUISITIONS

On 2 September 2006, the Group entered into a capital contribution agreement to contribute RMB20 million to the registered capital in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司, "Mingrunfeng") in return for a 51% equity interest in Mingrunfeng. On 22 September 2006, the Group entered into agreements to provide a revolving loan facility of not exceeding RMB40 million to Mingrunfeng and to provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to the Group's equity interest in Mingrunfeng, subject to the terms and conditions of such agreements. Subsequent to the year end date on 16 January 2007, the Group further entered into various acquisition agreements with the original shareholders of Mingrunfeng to acquire all the remaining equity interest of Mingrunfeng at a consideration of approximately HK\$119.5 million to be satisfied by the issue and allotment of 362,000,000 consideration shares at an issue price of HK\$0.33 per share. Details of the agreements and the acquisitions were set out in the Company's announcements dated 26 September 2006 and 1 February 2007, and in the Company's circular dated 30 March 2007. The acquisitions of Mingrunfeng, the loan facility agreement and the guarantee agreement have all been approved by the shareholders of the Company at an extraordinary general meeting held on 16 April 2007. The Group is currently undergoing the related procedures to effect the acquisitions of the entire equity interest in Mingrunfeng and the acquisitions is expected to be completed in due course.

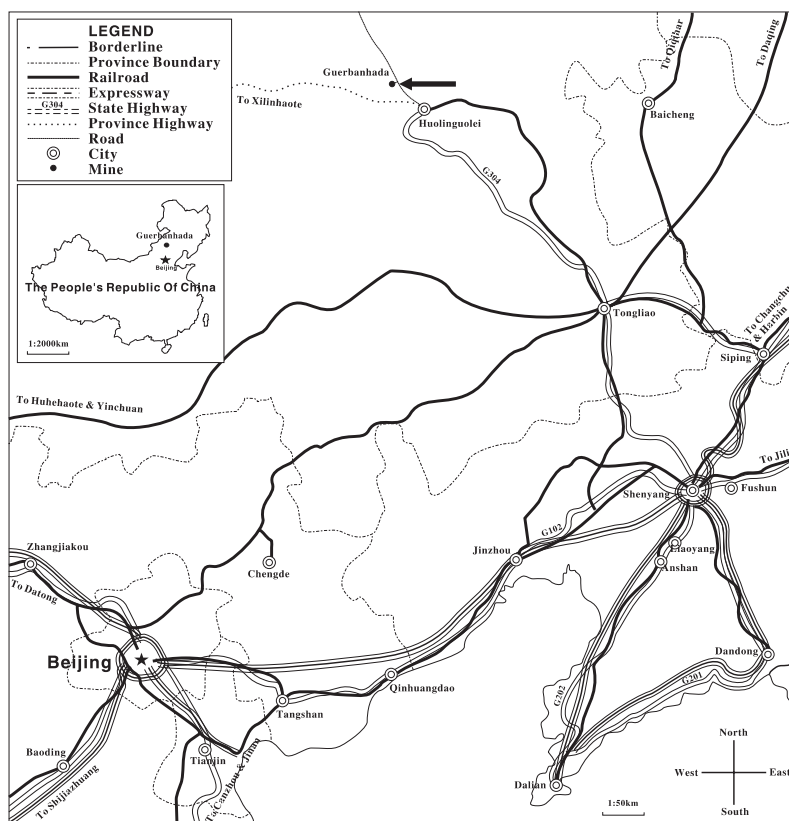
Mingrunfeng is the legal owner of the exploration right of a coal mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the People's Republic of China (the "PRC"). The coal mine has a site area of approximately 24.91 square kilometres and is located close to highways and railways (Figure 1). According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting"), the coal mine has estimated coal resource of 106 million tones and has an excellent potential to be developed



# MANAGEMENT DISCUSSION AND ANALYSIS

into an economic open cut coal mine servicing the domestic thermal market. In addition, SRK Consulting concluded that there appears to be no issues that may cause significant impact on the mining of the coal mine as it has no igneous intrusions and little or no structural features. The current on site market price for the coal of the coal mine is around Renminbi 160 Yuan per tonne.

Figure 1: Location of the Coal Project



## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. During the year under review, positive cash flow was being generated across the Group, with approximately HK\$10.6 million being generated from operating activities (2005: cash outflow of HK\$5.1 million). The Group recorded a net cash inflow of approximately HK\$36.3 million during the year (2005: cash outflow of HK\$9.2 million), which increased the total cash and bank balances to approximately HK\$85.2 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 75% (2005: 75%) of such borrowings bear interest at fixed lending rates. At 31 December 2006, the Group's bank and other borrowings amounted to approximately HK\$34.8 million (2005: HK\$32.9 million), out of which approximately 95% (2005: 93%) is repayable within one year. The gearing ratio of the Group at 31 December 2006, calculated as a ratio of total bank and other borrowings to total assets, was approximately 17% (2005: 21%). Net current assets at 31 December 2006 were approximately HK\$64.8 million (2005: HK\$28.7 million) and current ratio was maintained at a healthy level of approximately 241% (2005: 160%). As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant and the Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2006, certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK\$10.2 million (2005: HK\$10.2 million) and HK\$9.9 million (2005: HK\$9.3 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2006, the Group had capital commitment of RMB5 million, being the remaining balance of the capital contribution payable to Mingrunfeng. Further details of the Group's capital commitments are set out in note 36 to the financial statements.

The Group did not have any other material contingent liabilities as at 31 December 2006.

### CAPITAL STRUCTURE AND USE OF PROCEEDS

As at 31 December 2006, the capital structure of the Company was constituted of 2,988,657,000 ordinary shares of HK\$0.02 per share. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options to subscribe for shares in the Company. During the year, 120,960,000 share options were granted under the share option scheme adopted by the Company with an exercise price of HK\$0.1016 per share. No share option was exercised during the year and all 120,960,000 share options remained outstanding as at 31 December 2006. Subsequent to 31 December 2006 and up to the date of this report, 8,935,200 share options have been exercised by the option holders.

During the year under review, 774,837,000 new shares were issued by the Company as a result of the open offer of new shares on the basis of seven offer shares for every twenty existing shares held by the shareholders. The subscription price for each offer share was HK\$0.05 and a net proceed of approximately HK\$37 million was raised by the Company. The board of directors 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 investments 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. Further details of the open offer were set out in the Company's announcement and prospectus dated 6 July 2006 and 31 July 2006, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2006, HK\$15 million of the net proceeds of the open offer was paid by the Group as deposit in relation to the capital contribution of Mingrunfeng.

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

- approximately HK\$5 million was used for developing new models and new products;
- approximately HK\$5 million was used for the acquisition of new machinery and auxiliary equipment;
- approximately HK\$10 million was used for establishing retail outlets and developing distribution channels in major cities in the PRC; and
- approximately HK\$18 million was used as general working capital of the Group.

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

### EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2006, the Group had a total of 1,085 employees. The Group always maintains good working relations with its employees and has committed itself to staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. The Company also maintains a share option scheme pursuant to which share options can be granted to provide incentive to the staff. During the year, 120,960,000 share options have been granted under the share option scheme adopted by the Company.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### 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, 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 Managing Executive Committee Member of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, a Standing Committee Member of the China Toys Association, the Honorable President of the HK Fujian Charitable Education Fund, the Deputy Managing Director of The Fujian Putian University in the PRC, the Honorary Dean of the Xiong Xing Business Administration College in The Fujian Putian University in the PRC 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 45, 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 Standing Committee 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. Mr. Tang was appointed as an Independent Non-Executive Director of the Company on 23 May 2006.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. CHAN Kwok Yuen, Elvis**, aged 34, is the financial controller and the company secretary of the Company and is responsible for the financial and secretarial affairs of the Group. Mr. Chan holds a bachelor degree in commerce from Queen's University of Canada and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants. He joined the Group in July 2000 and has over 10 years of experience in the field of accounting 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.

**Mr. HUANG Jinglin**, aged 74, the chief engineer of Fujian Kcare Gifttoys 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 40, 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.

## REPORT OF THE DIRECTORS

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2006 is set out in note 6 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 27.

The directors recommend the payment of a final dividend of HK0.01 cent per ordinary share in respect of the year, to the shareholders on the register of members on 25 May 2007. Further details of the accounting treatment of the final dividend are set out in note 12 to the financial statements.

## REPORT OF THE DIRECTORS

### SUMMARY FINANCIAL INFORMATION

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

### RESULTS

	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	<b>96,578</b>	67,528	80,674	84,046	100,343
Profit/(Loss) before taxation	<b>2,577</b>	(364)	(12,732)	(3,425)	15,327
Taxation	<b>(1,437)</b>	323	790	169	(2,411)
Profit/(Loss) for the year	<b>1,140</b>	(41)	(11,942)	(3,256)	12,916
Attributable to:					
Equity holders of the Company	<b>1,103</b>	(41)	(11,888)	(3,254)	12,912
Minority interests	<b>37</b>	–	(54)	(2)	4
	<b>1,140</b>	(41)	(11,942)	(3,256)	12,916

### ASSETS AND LIABILITIES

	31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Total assets	<b>199,796</b>	153,606	166,249	175,051	172,395
Total liabilities	<b>(51,482)</b>	(53,441)	(69,084)	(66,832)	(61,851)
	<b>148,314</b>	100,165	97,165	108,219	110,544
Equity attributable to equity holders of the Company	<b>147,017</b>	100,165	97,165	108,165	110,539
Minority interests	<b>1,297</b>	–	–	54	5
	<b>148,314</b>	100,165	97,165	108,219	110,544

#### Notes:

- (1) The consolidated results of the Group for the years ended 31 December 2005 and 2006 are set out on page 26 of this annual report.
- (2) The consolidated balance sheets as at 31 December 2005 and 31 December 2006 are as set out on page 27 of the annual report.

## REPORT OF THE DIRECTORS

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 16 and 18 to the financial statements, respectively. Details of the Group's investment property is set out in note 18 to the financial statement.

### BORROWINGS

Details of the borrowings of the Group as at 31 December 2006 are set out in note 29 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year and subsequent thereto, are set out in notes 30, 31 and 41.6 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company had distributable reserves of approximately HK\$167,787,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the capital reserve and share premium of the Company of HK\$125,161,000 and HK\$23,406,000, respectively, at 31 December 2006 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### PRE-EMPTIVE RIGHTS

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

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK\$11,000.



## REPORT OF THE DIRECTORS

### RETIREMENT BENEFITS SCHEMES AND COSTS

Details of the Group's retirement benefits schemes and costs charged to the income statement for the year are set out in notes 3 and 38 to the financial statements, respectively.

In the opinion of the directors, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, as at 31 December 2006.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 43% of the total sales for the year and sales to the largest customer included therein accounted for approximately 19%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

### DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Mr. Hui Kee Fung (*Chairman*)

Mr. Hui Ki Yau (*Chief Executive Officer*)

Ms. Hui Hung Tan, Teresa

*Independent non-executive directors:*

Mr. Peng Guanghui

Mr. Kung King Ching, Conrad

Mr. Tang Rongzu (appointed on 23 May 2006)

Dr. Lin Ai Yue (resigned on 23 May 2006)

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

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

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

## REPORT OF THE DIRECTORS

### PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 11 to 12 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

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

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

### DIRECTORS' INTERESTS IN CONTRACTS

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

### DIRECTORS' INTERESTS IN SHARES

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate shareholding</b>
Hui Kee Fung	Interest of a controlled corporation (note)	1,567,500,000 (L)	52.45%
Hui Ki Yau	Interest of a controlled corporation (note)	1,567,500,000 (L)	52.45%
Hui Hung Tan, Teresa	Not applicable	–	–

*L: Long Position*

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES *(Continued)*

*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.

Save as disclosed above, as at the 31 December 2006, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

### SHARE OPTION SCHEME

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

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

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME *(Continued)*

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

During the year, 120,960,000 share options (the "Share Options") have been granted to the option holders under the Scheme operated by the Group. The Share Options have exercise price of HK\$0.1016 per share and are due to be expired on 18 June 2016. Further details of the Share Options are set out in note 31 to the financial statements. All Share Options remained outstanding as at 31 December 2006. Details of the number of Share Options exercised subsequent to the year end date is set out in note 41.6 to the financial statements.

### SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2006, 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:

<b>Name of Shareholder</b>	<b>Number of Shares held</b>	<b>Capacity Beneficial</b>	<b>Approximate Other</b>	<b>shareholding</b>
Legend Win Profits Limited (note)	1,567,500,000 (L)	1,567,500,000	–	52.45%
Yu Won Kong, Dennis	344,500,000 (L)	344,500,000	–	11.53%

*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.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in note 39 to the financial statements. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

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

### RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 39 to the financial statements.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

### CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 21 to 24.

### INDEPENDENT CONFIRMATION

The Company has received, from each independent non-executive director, an annual confirmation of independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the stock Exchange of Hong Kong Limited. The Company considers all the independent non-executive directors are independent.

### POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 41 to the financial statements.

### AUDITORS

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

ON BEHALF OF THE BOARD

**HUI Kee Fung**

Chairman

Hong Kong

27 April 2007

## CORPORATE GOVERNANCE REPORT

### INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2006, the Company has substantially complied with the provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2006.

### BOARD OF DIRECTORS

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

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

## CORPORATE GOVERNANCE REPORT

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Nine Board meetings were held in 2006. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2006 is set out below:

Director	Attendance/Number of Meetings			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
<b>Executive Director</b>				
Mr. Hui Kee Fung ( <i>Chairman</i> )	8/8	N/A	1/1	1/1
Mr. Hui Ki Yau ( <i>Chief Executive Officer</i> )	8/8	N/A	N/A	N/A
Madam Hui Hung Tan, Teresa	8/8	N/A	N/A	N/A
<b>Independent Non-Executive Director</b>				
Mr. Peng Guanghui	8/8	3/3	1/1	1/1
Mr. Kung King Ching, Conrad	8/8	3/3	1/1	1/1
Mr. Tang Rongzu (appointed on 23 May 2006)	7/7	2/2	1/1	1/1
Dr. Lin Ai Yue (resigned on 23 May 2006)	1/1	1/1	0/0	0/0

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

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on page 11.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Hui Ki Yau as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on page 11.

## CORPORATE GOVERNANCE REPORT

### REMUNERATION COMMITTEE

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

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2006. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Tang Rongzu – *Chairman*  
Mr. Peng Guanghui  
Mr. Kung King Ching, Conrad  
Mr. Hui Kee Fung

Directors' remunerations for the year are disclosed in note 15 to the financial statements.

### NOMINATION COMMITTEE

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

One meeting was held by the Nomination Committee in 2006. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Kung King Ching, Conrad – *Chairman*  
Mr. Peng Guanghui  
Mr. Tang Rongzu  
Mr. Hui Kee Fung



## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2006. All committee members are independent non-executive directors. Its current members include:

Mr. Peng Guanghui – *Chairman*  
 Mr. Kung King Ching, Conrad  
 Mr. Tang Rongzu

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

### INTERNAL CONTROLS

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

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

### AUDITORS' REMUNERATION

During the year, the Group has incurred auditors' remuneration of HK\$777,000, out of which HK\$760,000 was payable to the Company's auditors, Messrs Grant Thornton. In addition, professional fee of HK\$58,000 was payable by the Group for the taxation services rendered by Grant Thornton.

### FINANCIAL REPORTING

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

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 25.

# INDEPENDENT AUDITORS' REPORT

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

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

We have audited the consolidated financial statements of Kiu Hung International Holdings Limited (the "Company") set out on pages 26 to 100, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of its subsidiaries (the "Group") as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**  
Certified Public Accountants  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

27 April 2007

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Revenue</b>	5	<b>96,578</b>	67,528
Cost of sales		<b>(61,046)</b>	(44,705)
<b>Gross profit</b>		<b>35,532</b>	22,823
Other revenue	7	<b>5,297</b>	6,631
Distribution costs		<b>(9,197)</b>	(6,601)
Administrative expenses		<b>(25,500)</b>	(17,709)
Other operating expenses		<b>(1,024)</b>	(771)
<b>Operating profit</b>	8	<b>5,108</b>	4,373
Finance costs	9	<b>(2,576)</b>	(3,533)
Share of profit/(loss) of a jointly controlled entity	21	<b>45</b>	(869)
Share of loss of an associate	20	<b>–</b>	(335)
<b>Profit/(Loss) before income tax</b>		<b>2,577</b>	(364)
Income tax (expense)/credit	10	<b>(1,437)</b>	323
<b>Profit/(Loss) for the year</b>		<b>1,140</b>	(41)
<b>Attributable to:</b>			
Equity holders of the Company	11	<b>1,103</b>	(41)
Minority interests		<b>37</b>	–
<b>Profit/(Loss) for the year</b>		<b>1,140</b>	(41)
<b>Proposed final dividend</b>	12	<b>299</b>	–
		<b>HK cent</b>	HK cent (Restated)
<b>Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year</b>	13		
– Basic		<b>0.0382</b>	(0.0015)
– Diluted		<b>0.0377</b>	N/A

# CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	63,877	66,369
Prepaid land lease payments	17	6,213	6,118
Investment property	18	400	400
Interest in an associate	20	–	–
Interest in a jointly controlled entity	21	623	–
Amount due from a related company	22	–	2,619
Intangible assets	23	2,424	–
Deposit for acquisition of a company	36	15,000	–
Deferred tax assets	33	551	1,987
		<b>89,088</b>	<b>77,493</b>
<b>Current assets</b>			
Inventories	24	10,227	7,609
Trade and bills receivables	25	9,105	12,749
Prepayment, deposits and other receivables	25	1,716	1,796
Amount due from a jointly controlled entity	21	1,097	–
Amount due from a related company	22	2,900	5,513
Tax recoverable		153	126
Financial assets at fair value through profit or loss	26	286	286
Cash at banks and in hand	27	85,224	48,034
		<b>110,708</b>	<b>76,113</b>
<b>Current liabilities</b>			
Trade and bills payables	28	7,632	10,858
Other payables and accruals	28	4,902	5,655
Provision for tax		287	263
Borrowings	29	33,066	30,650
		<b>45,887</b>	<b>47,426</b>
<b>Net current assets</b>		<b>64,821</b>	<b>28,687</b>
<b>Total assets less current liabilities</b>		<b>153,909</b>	<b>106,180</b>
<b>Non-current liabilities</b>			
Borrowings	29	1,766	2,251
Deferred tax liabilities	33	3,829	3,764
		<b>5,595</b>	<b>6,015</b>
<b>Net assets</b>		<b>148,314</b>	<b>100,165</b>
<b>EQUITY</b>			
<b>Equity attributable to Company's equity holders</b>			
Share capital	30	59,773	44,277
Reserves	32	86,945	55,888
Proposed final dividend	12	299	–
		<b>147,017</b>	<b>100,165</b>
<b>Minority interests</b>		<b>1,297</b>	<b>–</b>
<b>Total equity</b>		<b>148,314</b>	<b>100,165</b>

Hui Ki Yau  
Director

Hui Hung Tan, Teresa  
Director

# BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	19	105,080	100,261
<b>Current assets</b>			
Prepayment and other receivables		216	–
Amount due from a subsidiary	19	110,183	46,743
Cash at banks		12,736	25
		<b>123,135</b>	46,768
<b>Current liabilities</b>			
Other payables and accruals		356	56
<b>Net current assets</b>		<b>122,779</b>	46,712
<b>Total assets less current liabilities</b>		<b>227,859</b>	146,973
<b>EQUITY</b>			
Share capital	30	59,773	44,277
Reserves	32	167,787	102,696
Proposed final dividend	12	299	–
<b>Total equity</b>		<b>227,859</b>	146,973

\_\_\_\_\_  
**Hui Ki Yau**  
 Director

\_\_\_\_\_  
**Hui Hung Tan, Teresa**  
 Director

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		2,577	(364)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment		6,654	6,199
Amortisation of prepaid land lease payments		147	152
Impairment loss on goodwill		–	261
Amortisation of intangible assets		190	–
Provision for slow moving inventories		804	3,131
Bad debts written-off		376	162
Write off of deposits received		(912)	–
Revaluation surplus on leasehold land and buildings		(312)	(147)
Write off of property, plant and equipment		1	29
Gain on disposal of property, plant and equipment		(9)	–
Share of loss of an associate		–	335
Share of (profit)/loss of a jointly controlled entity		(45)	869
Loss/(Gain) on disposal of subsidiaries	34(b)	327	(2,740)
Share-based compensation expenses			
– employee compensation expenses		4,614	–
– consultancy fee		205	–
Interest expenses		2,576	2,309
Interest income		(1,158)	(344)
Operating profit before working capital changes		16,035	9,852
Increase in inventories		(3,422)	(3,681)
Decrease/(Increase) in trade and bills receivables		3,268	(10,724)
(Increase)/Decrease in prepayment, deposits and other receivables		(247)	486
Increase in amount due from an associate		–	(1,362)
Increase in amount due from a jointly-controlled entity		(1,097)	–
Increase/(Decrease) in trust receipt loans		1,798	(1,193)
(Decrease)/Increase in trade and bills payables		(3,226)	3,679
Increase in other payables and accruals		159	166
Cash generated from/(used in) operations		13,268	(2,777)
Interest paid		(2,561)	(2,279)
Interest paid in finance lease payments		(15)	(30)
Income tax refunded		–	37
Income tax paid		(74)	(96)
<i>Net cash generated from/(used in) operating activities</i>		<b>10,618</b>	<b>(5,145)</b>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(1,184)	(10,911)
Proceeds from disposal of property, plant and equipment		34	–
Decrease in financial assets at fair value through profit and loss		–	20
Payments to acquire intangible assets		(2,614)	–
Capital contribution to a jointly controlled entity		(578)	–
Acquisition of a subsidiary, net of cash acquired	34(a)	–	529
Proceeds from disposal of subsidiaries, net of cash disposed of	34(b)	–	2,041
Decrease in amount due from a related company		5,232	2,900
Deposit paid for acquisition of a company	36	(15,000)	–
Interest received		1,158	344
<i>Net cash used in investing activities</i>		<b>(12,952)</b>	(5,077)
<b>Cash flows from financing activities</b>			
Proceeds from open offer of shares issued	30	38,742	–
Payment in relation to the cost of open offer of shares issued		(1,498)	–
New bank loans		26,522	28,368
Repayment of bank loans		(26,293)	(26,699)
Repayment of capital element of finance lease payables		(96)	(640)
Capital contribution from minority interests		1,260	–
<i>Net cash generated from financing activities</i>		<b>38,637</b>	1,029
<b>Net increase/(decrease) in cash at banks and in hand</b>		<b>36,303</b>	(9,193)
<b>Cash at banks and in hand at 1 January</b>		<b>48,034</b>	56,616
<b>Effect of foreign exchange rate changes, on cash held</b>		<b>887</b>	611
<b>Cash at banks and in hand at 31 December</b>		<b>85,224</b>	48,034

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Equity attributable to equity holders of the Company				Proposed final dividend	Minority interests	Total equity
	Share capital	Other Reserves (note 32)	Retained profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004 and 1 January 2005	44,277	11,557	41,331	97,165	-	-	97,165
Revaluation surplus on properties	-	1,841	-	1,841	-	-	1,841
Deferred tax liability arising on revaluation of properties	-	(202)	-	(202)	-	-	(202)
Translation adjustments	-	1,402	-	1,402	-	-	1,402
Net income recognised directly in equity	-	3,041	-	3,041	-	-	3,041
Loss for the year	-	-	(41)	(41)	-	-	(41)
Total recognised income and expense for the year	-	3,041	(41)	3,000	-	-	3,000
Appropriation of statutory surplus reserve	-	386	(386)	-	-	-	-
Reserve transferred to retained profits upon disposal of a subsidiary	-	(389)	389	-	-	-	-
At 31 December 2005 and 1 January 2006	44,277	14,595	41,293	100,165	-	-	100,165
Revaluation surplus on properties	-	1,064	-	1,064	-	-	1,064
Deferred tax liability arising on revaluation of properties	-	(111)	-	(111)	-	-	(111)
Translation adjustments	-	2,733	-	2,733	-	-	2,733
Net income recognised directly in equity	-	3,686	-	3,686	-	-	3,686
Profit for the year	-	-	1,103	1,103	-	37	1,140
Total recognised income and expense for the year	-	3,686	1,103	4,789	-	37	4,826
Acquisition of a subsidiary	-	-	-	-	-	1,260	1,260
Proceeds from open offer of new shares issued, net (note 30)	15,496	21,748	-	37,244	-	-	37,244
Share-based compensation (note 31)	-	4,819	-	4,819	-	-	4,819
2006 proposed final dividend (note 12)	-	-	(299)	(299)	299	-	-
<b>At 31 December 2006</b>	<b>59,773</b>	<b>44,848</b>	<b>42,097</b>	<b>146,718</b>	<b>299</b>	<b>1,297</b>	<b>148,314</b>



## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 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 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is 14th Floor, 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 19. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries (the "Group") during the year.

The financial statements on pages 26 to 100 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also 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 ("Listing Rules").

The financial statements for the year ended 31 December 2006 were approved by the board of directors on 27 April 2007.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these HKFRSs has resulted in changes in the Group's accounting policy on financial guarantee contracts.

Other than the above, the adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures.

#### 2.1 Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of:

- the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Group's revenue recognition policies; and
- the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("HKAS 37").

Details of this new accounting policy are set out in note 3.23.

Prior to this new accounting policy, the Group disclosed the financial guarantees issued as contingent liabilities in accordance with HKFRS 4 "Insurance Contracts" and HKAS 37. Provisions for the Group's liabilities under the financial guarantee contracts were made when it was more likely than not that the guaranteed party would default and the Group would incur outflow of resources embodying economic benefits.

This new accounting policy has been applied retrospectively to the extent that the financial guarantee contracts were in existence at 1 January 2005 (ie the date when HKAS 39 was initially adopted by the Group). This change in accounting policy has had no material effect on the Company's or Group's amounts reported for the current and prior accounting periods.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

#### 2.2 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments – Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>8</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) – Int 11	Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>7</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 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2009

### 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. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties, leasehold land and buildings, buildings and financial instruments classified as financial assets at fair value through profit or loss which are stated at fair values. 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 and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

### 3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations are accounted for by applying 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 fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. 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 losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 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. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

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. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.13) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

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. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.5 Joint ventures

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

In consolidated financial statements, interest in joint ventures is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the joint venture is carried at cost and adjusted for the post-acquisition changes in the Group's share of the joint venture's net assets less any identified impairment losses, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the joint venture for the year, including any impairment loss on goodwill relating to the investment in joint venture recognised for the year.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Group's interest in the joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its jointly controlled entities. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.13) of the joint venture and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the joint venture's profit or loss in which the investment is acquired.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.5 Joint ventures *(Continued)*

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the joint venture's accounting policies to those of the Group when the joint venture's financial statements are used by the Group in applying the equity method.

#### 3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.6 Foreign currency translation *(Continued)*

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

#### 3.7 Revenue recognition

Revenue comprises the fair value for the sale of goods net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

#### 3.8 Borrowing costs

All borrowing costs are expensed as incurred.

#### 3.9 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.13).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.10 Intangible assets (other than goodwill) and research and development activities

##### *Intangible assets (other than goodwill)*

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3.13.

##### *Research and Development costs*

Cost associated with research activities are expensed in the income statement as they occur.

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.

#### 3.11 Property, plant and equipment

Buildings and land held under operating leases and buildings thereon (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.11 Property, plant and equipment *(Continued)*

Any surplus arising on revaluation of land and buildings are credited to the revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.13. To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the revaluation reserve. A decrease in net carrying amount of land and buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the same 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 over their estimated useful lives, using the straight-line method, at the following rates per annum:

	<b>Depreciation rate</b>	<b>Residual value</b>
Leasehold land and buildings	2%-5%	0%
Buildings	5%	0%
Leasehold improvements	10%	0%
Plant and machinery	10%	10%
Moulds	10-20%	0-10%
Furniture, fixtures and equipment	10-20%	0-10%
Motor vehicles	20%	0-10%

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

The gain or loss arising on retirement or 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 costs, such as repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.12 Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

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.

#### 3.13 Impairment of assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.11 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.13 Impairment of assets *(Continued)*

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a 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 the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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 favourable 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.

#### 3.14 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

##### *(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.12); and

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.14 Leases *(Continued)*

##### *(i) Classification of assets leased to the Group (Continued)*

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 3.11). For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

##### *(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

##### *(iii) Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.15 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets are classified into the following categories:

- financial assets at fair value through profit or loss
- loans and receivables

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable 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. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

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

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.15 Financial assets *(Continued)*

##### *(i) Financial assets at fair value through profit or loss (Continued)*

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

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.

##### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.15 Financial assets *(Continued)*

##### *Impairment of financial assets*

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

#### 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 the estimated cost of completion and applicable selling expenses.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.17 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

#### 3.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.19 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 such as sick leave and maternity leave 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.19 Retirement benefit schemes and short-term employee benefits *(Continued)*

##### *(ii) Retirement benefits schemes (Continued)*

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

#### 3.20 Share-based compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees, directors, shareholders, suppliers and customers of the Group and any other parties having contribution or may contribute to the development of the Group.

All services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (equity compensation reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in equity compensation reserve will be transferred to retained profits.

#### 3.21 Financial liabilities

The Group's financial liabilities include bank and trust receipt loans, trade and other payables and finance leasing liabilities. They are included in balance sheet line items as borrowings under current or non-current liabilities, trade and bills payables and other payables and accruals.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.21 Financial liabilities *(Continued)*

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

##### *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments (See note 3.14).

##### *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 and bills payables and other payables and accruals*

Trade and bills payables and other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

#### 3.22 Provisions and contingent liabilities

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### 3.22 Provisions and contingent liabilities *(Continued)*

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

#### 3.23 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

### 3.24 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 intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and capital expenditure is where the assets are located. Assets, except for trade receivables, are attributed to the segments based on the location of the assets. Trade receivables are attributed to the segments based on the location of the customers.

### 3.25 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 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 below:

#### (i) Valuation of leasehold land and buildings, buildings and investment property

The leasehold land and buildings, buildings and investment property of the Group were stated at fair value in accordance with the accounting policy state in note 3.11 and 3.12 respectively. The fair value of the leasehold land and buildings, buildings and investment property are determined by an independent qualified professional surveyor, as set out in note 16 and note 18 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.

#### (ii) Valuation of share options granted

The fair value of share options granted is determined by an independent qualified professional valuer, as set out in note 31. Some of the significant estimates and assumptions made by the valuers include the estimated life of share options granted to be ten years based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes nil future dividends. Details of the inputs are set out in note 31.

#### (iii) Net realisable values of inventories

Management of the Group reviews the inventory listing on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. Management estimates the net realisable value for such inventories based primarily on the latest prices and current market conditions.

#### (iv) Impairment of trade and other receivables

Management of the Group determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market condition. Management reassess the impairment of trade and other receivables at the balances sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 5. REVENUE AND TURNOVER

Revenue which is also the Group's turnover, represents total invoiced value of goods supplied.

### 6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Summary details of business segments are as follows:

- (i) the toys segment manufactures and trades traditional toys, fashionable toys such as cartoon character products, electronic stuffed toys, educational toys and model kits; and
- (ii) the decorative gift items segment manufactures and trades water globes, snow domes, figurines and functional household and garden 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, except for trade receivables, are attributed to the segments based on the location of the assets. Trade receivables are attributed to the segments based on the location of the customers.

There were no intersegment sales and transfers between segments.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 6. SEGMENT INFORMATION (Continued)

#### (a) Business segments

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

	Toys		Decorative gift items		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:						
Sales to external customers	<b>49,054</b>	31,838	<b>47,524</b>	35,690	<b>96,578</b>	67,528
Segment results	<b>1,019</b>	(645)	<b>987</b>	(723)	<b>2,006</b>	(1,368)
Interest, rental income and unallocated gains					<b>5,297</b>	6,631
Unallocated expenses					<b>(2,195)</b>	(890)
Operating profit					<b>5,108</b>	4,373
Finance costs					<b>(2,576)</b>	(3,533)
Share of profit/(loss) of a jointly controlled entity					<b>45</b>	(869)
Share of loss of an associate					<b>-</b>	(335)
Profit/(Loss) before income tax					<b>2,577</b>	(364)
Income tax (expense)/credit					<b>(1,437)</b>	323
Profit/(Loss) for the year					<b>1,140</b>	(41)
Segment assets	<b>46,736</b>	44,021	<b>101,992</b>	76,446	<b>148,728</b>	120,467
Unallocated assets					<b>51,068</b>	33,139
Total assets					<b>199,796</b>	153,606
Segment liabilities	<b>17,309</b>	17,274	<b>25,880</b>	10,899	<b>43,189</b>	28,173
Unallocated liabilities					<b>8,293</b>	25,268
Total liabilities					<b>51,482</b>	53,441
Other segment information:						
Depreciation and amortisation	<b>2,042</b>	1,899	<b>4,433</b>	3,624	<b>6,475</b>	5,523
Unallocated amounts					<b>516</b>	828
					<b>6,991</b>	6,351
Impairment loss on goodwill	-	-	-	-	-	261
Other non-cash expenses	<b>470</b>	6	<b>233</b>	-	<b>703</b>	6
Unallocated amounts					-	205
					<b>703</b>	211
Capital expenditure	<b>3,368</b>	492	<b>430</b>	10,419	<b>3,798</b>	10,911

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 6. SEGMENT INFORMATION *(Continued)*

### (b) Geographical segments

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

	PRC (including Hong Kong)		North America <sup>1</sup>		European Union <sup>2</sup>		Others <sup>3</sup>		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:										
Sales to external customers	<b>2,890</b>	3,005	<b>70,679</b>	48,611	<b>19,992</b>	13,161	<b>3,017</b>	2,751	<b>96,578</b>	67,528
Segment results	<b>60</b>	(55)	<b>1,468</b>	(1,012)	<b>415</b>	(260)	<b>63</b>	(41)	<b>2,006</b>	(1,368)
Other segment information:										
Segment assets	<b>193,421</b>	143,232	<b>5,630</b>	9,391	<b>745</b>	439	-	544	<b>199,796</b>	153,606
Capital expenditure	<b>3,798</b>	10,911	-	-	-	-	-	-	<b>3,798</b>	10,911

1 North America includes the United States of America and Canada

2 European Union includes Spain, Italy, France and the United Kingdom

3 Others includes Middle East, South America and Southeast Asia

## 7. OTHER REVENUE

	2006 HK\$'000	2005 HK\$'000
Interest income	<b>1,158</b>	344
Exchange gains, net	<b>1,627</b>	53
Rental income	<b>25</b>	25
Gains on disposal of subsidiaries	-	2,740
Gain on disposal of property, plant and equipment	<b>9</b>	-
Write off of deposits received	<b>912</b>	-
Sale of moulds	<b>602</b>	530
Surplus on revaluation of leasehold land and buildings (reversing revaluation decrease previously charged to consolidated income statement)	<b>312</b>	147
Others	<b>652</b>	2,792
	<b>5,297</b>	6,631

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 8. OPERATING PROFIT

	2006 HK\$'000	2005 HK\$'000
Operating profit is arrived at after charging:		
Impairment loss on goodwill (included in other operating expenses)	–	261
Amortisation of license rights (included in cost of sales)	190	–
Auditors' remuneration		
– current year	777	460
– overprovision in prior years	–	(13)
	<b>777</b>	447
Bad debts written-off	376	162
Cost of inventories recognised as expenses	57,288	40,174
Depreciation and amortisation:		
– owned property, plant and equipment	6,582	6,060
– leased property, plant and equipment	72	139
– prepaid land lease payments	147	152
	<b>6,801</b>	6,351
Provision for slow-moving inventories	804	3,131
Loss on disposal of subsidiaries (included in other operating expenses)	327	–
Operating lease charges on land and buildings	178	281
Changes in fair value of financial assets at fair value through profit and loss	–	20
Research and development costs – current year expenditure	2,763	1,401
Write off of property, plant and equipment	1	29

Depreciation expense of HK\$2,966,000 (2005: HK\$3,553,000) has been expensed in cost of sales and HK\$3,688,000 (2005: HK\$2,646,000) in administrative expenses.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 9. FINANCE COSTS

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest charges on:		
Bank loans and trust receipt loans wholly repayable within five years	<b>2,561</b>	2,139
Bank loans not wholly repayable within five years	–	140
Finance charges on finance leases	<b>15</b>	30
Interest on capital contribution payable to a jointly controlled entity	–	1,224
	<b>2,576</b>	3,533

## 10. INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current tax		
– Hong Kong		
Tax for the year	<b>47</b>	73
– Overseas		
Tax for the year	–	–
Over provision in respect of prior years	–	(306)
	<b>47</b>	(233)
Deferred tax		
Current year (note 33)	<b>1,390</b>	(90)
Total income tax expense/(credit)	<b>1,437</b>	(323)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 10. INCOME TAX EXPENSE/(CREDIT) (Continued)

Reconciliation between tax expense/(credit) and accounting profit/(loss) at applicable tax rates:

	2006 HK\$'000	2005 HK\$'000
Profit/(Loss) before income tax	<b>2,577</b>	(364)
Tax calculated at the rate of 17.5% (2005: 17.5%)	<b>451</b>	(64)
Tax calculated at the rates applicable to other jurisdictions	<b>(574)</b>	8
Tax effect of non-deductible expenses	<b>1,204</b>	352
Tax effect of non-taxable revenue	<b>(367)</b>	(88)
Tax effect of utilisation of tax losses not previously recognised	<b>(912)</b>	(225)
Tax effect of tax losses not recognised	<b>1,635</b>	–
Over provision in prior years	–	(306)
Actual tax expense/(credit)	<b>1,437</b>	(323)

In addition to the amount expensed/(credited) to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 32).

No provision for the PRC enterprise income tax has been made for Fujian Kcare Gifttoys Co., Ltd. (福建奇嘉禮品玩具有限公司) ("Fujian Kcare"), 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) as these subsidiaries did not derive any assessable income during the year.

### 11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of HK\$1,103,000 (2005: Loss of HK\$41,000), HK\$38,823,000 (2005: Loss of HK\$26,109,000) has been dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 12. PROPOSED FINAL DIVIDEND

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Proposed final dividend attributable to the year of 0.01 cents per share (2005: nil)	<b>299</b>	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of retained earnings for the year ended 31 December 2006.

## 13. EARNINGS/LOSS PER SHARE

The calculation of basic earning/(loss) per share is based on the profit/(loss) attributable to equity holders of the Company for the year of HK\$1,103,000 (2005: Loss of HK\$41,000) and the weighted average of 2,883,343,371 (2005: 2,818,570,829 (restated)) ordinary shares in issue during the year.

The weighted average number of shares for the purposes of calculating basic loss per share for the year 2005 has been adjusted to reflect the issuance of shares as a result of the open offer of shares issued as detailed in note 30.

The calculation of diluted earning per share is based on the profit attributable to equity holders of the Company for the year of HK\$1,103,000 and the weighted average of 2,922,024,874 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 2,883,343,371 ordinary shares in issue during the period plus the weighted average of 38,681,503 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

The Group entered into a series of agreements in relation to the acquisition of subsidiaries on 16 January 2007 (note 41.1). Part of the consideration is to be satisfied by the allotment and issue of 362,000,000 ordinary shares of the Company.

Diluted loss per share for the years ended 31 December 2005 has not been presented as there was no dilutive potential ordinary shares.

## 14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	<b>16,078</b>	15,030
Pension costs – defined contribution plans	<b>1,023</b>	818
Share options granted to employees	<b>4,614</b>	–
	<b>21,715</b>	15,848

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

#### (a) Directors' emoluments

	Fees HK\$'000	Salaries and allowances HK\$'000	Contribution to defined contribution plan HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2006</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. Peng Guanghui	70	–	–	70
Mr. Kung King Ching, Conrad	50	–	–	50
Mr. Tang Rongzu	30	–	–	30
Dr. Lin Al Yue	–	–	–	–
	150	3,360	336	3,846
<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. Peng Guanghui	20	–	–	20
Mr. Kung King Ching, Conrad	–	–	–	–
Dr. Lin Al Yue	–	–	–	–
Mr. Sy Chin Mong, Stephen	–	–	–	–
	20	3,360	336	3,716

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year ended 31 December 2006 (2005: 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 (2005: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

## 15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

*(Continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Basic salaries, share options and other allowances	<b>2,911</b>	1,012
Contribution to pensions schemes	56	76
	<b>2,967</b>	1,088

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 (2005: Nil).

The emoluments of the two (2005: two) highest paid individuals fell within the following bands:

	<b>Number of highest paid individuals</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
HK\$Nil – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	–



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 16. PROPERTY, PLANT AND EQUIPMENT

#### Group

	Leasehold land and buildings HK\$'000 (note (a))	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 31 December 2004								
Cost or valuation	18,516	25,727	2,093	9,936	16,746	3,581	3,386	79,985
Accumulated depreciation	-	-	(1,745)	(5,983)	(6,757)	(2,633)	(2,549)	(19,667)
Net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
Year ended 31 December 2005								
Opening net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
Additions	-	-	-	153	10,356	402	-	10,911
Arising from acquisition of a subsidiary	-	-	-	-	1,577	3	-	1,580
Revaluation surplus credited to equity	1,312	529	-	-	-	-	-	1,841
Revaluation surplus credited to consolidated income statement	147	-	-	-	-	-	-	147
Write off	-	-	-	(7)	-	(22)	-	(29)
Disposal of subsidiaries	-	-	-	-	(2,991)	-	-	(2,991)
Depreciation	(686)	(1,311)	(85)	(774)	(2,610)	(425)	(308)	(6,199)
Exchange differences	71	255	-	51	384	25	5	791
Closing net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
At 31 December 2005								
Cost or valuation	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651
Accumulated depreciation	-	-	(1,830)	(6,822)	(8,664)	(3,065)	(2,901)	(23,282)
Net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Group *(Continued)*

	Leasehold land and buildings HK\$'000 (note (a))	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Year ended 31 December 2006</b>								
Opening net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
Additions	-	-	-	160	798	226	-	1,184
Revaluation surplus credited to equity	793	271	-	-	-	-	-	1,064
Revaluation surplus credited to consolidated income statement	312	-	-	-	-	-	-	312
Disposals	-	-	-	-	-	-	(25)	(25)
Write-off	-	-	-	(1)	-	-	-	(1)
Depreciation	(662)	(1,269)	(57)	(682)	(3,497)	(353)	(134)	(6,654)
Exchange differences	97	1,008	-	56	429	31	7	1,628
<b>Closing net book amount</b>	<b>19,900</b>	<b>25,210</b>	<b>206</b>	<b>2,909</b>	<b>14,435</b>	<b>835</b>	<b>382</b>	<b>63,877</b>
At 31 December 2006								
Cost or valuation	19,900	25,210	2,093	10,599	26,822	4,272	3,252	92,148
Accumulated depreciation	-	-	(1,887)	(7,690)	(12,387)	(3,437)	(2,870)	(28,271)
<b>Net book amount</b>	<b>19,900</b>	<b>25,210</b>	<b>206</b>	<b>2,909</b>	<b>14,435</b>	<b>835</b>	<b>382</b>	<b>63,877</b>
<b>At cost</b>	<b>-</b>	<b>-</b>	<b>2,093</b>	<b>10,599</b>	<b>26,822</b>	<b>4,272</b>	<b>3,252</b>	<b>47,038</b>
<b>At professional valuation</b>	<b>19,900</b>	<b>25,210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,110</b>
<b>At 31 December 2006</b>	<b>19,900</b>	<b>25,210</b>	<b>2,093</b>	<b>10,599</b>	<b>26,822</b>	<b>4,272</b>	<b>3,252</b>	<b>92,148</b>
At cost								
At cost	-	-	2,093	10,198	25,369	3,996	3,435	45,091
At professional valuation	19,360	25,200	-	-	-	-	-	44,560
At 31 December 2005								
At 31 December 2005	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651

*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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Medium term leases held in Hong Kong	11,050	10,450
Medium term leases held outside Hong Kong	34,060	34,110
	<b>45,110</b>	44,560

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\$6,430,000 at 31 December 2006 (2005: HK\$6,470,000).

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 2006, certain of the Group's buildings and leasehold land and buildings with aggregate carrying values of approximately HK\$10,180,000 and HK\$9,860,000 respectively (2005: HK\$10,200,000 and HK\$9,300,000 respectively) were pledged to secure general banking facilities granted to the Group as detailed in note 29.

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 2006, amounted to Nil (2005: HK\$482,000), HK\$34,000 (2005: HK\$39,000) and HK\$123,000 (2005: HK\$189,000) 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 2006 at HK\$19,900,000 (2005: HK\$19,360,000) 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 2006 at HK\$25,210,000 (2005: HK\$25,200,000) 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\$16,755,000 (2005: HK\$17,782,000) and HK\$13,188,000 (2005: HK\$14,119,000) respectively.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 17. 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>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<b>6,213</b>	6,118

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Opening net carrying amount	<b>6,118</b>	6,270
Exchange difference	<b>242</b>	–
Annual charges of prepaid land lease payments	<b>(147)</b>	(152)
<hr/>		
Closing net carrying amount	<b>6,213</b>	6,118

None of the Group's land use right was pledged to secure general banking facilities granted to the Group.

### 18. INVESTMENT PROPERTY

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Carrying amount as at 1 January and 31 December	<b>400</b>	400

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

The investment property was valued on an open market value basis by Castores Magi (Hong Kong) Limited at 31 December 2006. 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 35(a).

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2006 HK\$'000	2005 HK\$'000
Investments – unlisted shares, at cost	125,261	125,261
Investments – share based compensation (note 31)	4,819	–
Less: Provision for impairment	(25,000)	(25,000)
	<b>105,080</b>	100,261
Amount due from a subsidiary	<b>110,183</b>	46,743

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 2006 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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

(Continued)

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
Qiao Xiong Toys Co., Ltd. Putian Fujian 福建省莆田市橋雄玩具有限公司 (note (c))	PRC	HK\$10,000,000	-	100%	Manufacture of toys	PRC
Fujian Kcare Giftoys Co., Ltd. 福建奇嘉禮品玩具有限公司 (note (d))	PRC	Renminbi ("RMB") 10,000,000	-	100%	Manufacture and trading of decorative gift items and toys	PRC
Newgary Development Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each (note (a))	-	100%	Property holding	Hong Kong
Top Point Investments Limited	BVI	100 ordinary shares of US\$1 each	-	100%	Investment in securities	Hong Kong
Kiu Hung Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	-	100%	Investment and property holding	Hong Kong
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	-	100%	Manufacture and trading of decorative gift items and toys	Hong Kong
Ka Hung Toys Co., Ltd. Fujian 福建嘉雄玩具有限公司 (formerly known as Fujian Putian Jiexiong 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
Toland International Holding Limited	Hong Kong	4,200,000 ordinary shares of HK\$100 each	-	70%	Trading of flags and garden products	Hong Kong

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

(Continued)

Notes:

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).
- (b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US\$5,000,000 which has been fully paid up.
- (c) Qiao Xiong Toys Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1996. Its registered capital is HK\$10,000,000 which has been fully paid up.
- (d) Fujian Kcare Giftoys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.
- (e) Ka Hung Toys Co., Ltd. Fujian is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 12 November 2002. Its registered capital is RMB10,000,000 which has been fully paid up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 20. INTEREST IN AN ASSOCIATE

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Balance at 1 January	–	335
Share of associate results		
– Loss before taxation	–	(335)
Balance at 31 December	–	–
Amount due from an associate	–	–
Balance at 31 December	–	–

In 2005, the Group acquired further 33% of issued share capital of the associate, Miracles for Fun (HK) Limited (“MFF”). Details of the acquisition are set out in note 34(a).

A condensed summary of the financial information of the Group’s associate is not presented for 2005 and 2006 because MFF became a non-wholly owned subsidiary of the Group during the year 2005.

### 21. INTEREST IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>578</b>	–
Share of post-acquisition result of a jointly controlled entity	45	–
Interest in a jointly controlled entity	<b>623</b>	–
Amount due from a jointly controlled entity	<b>1,097</b>	–

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 21. INTEREST IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY *(Continued)*

Name	Country of incorporation	Particulars of issued capital	Percentage of equity interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
Marketing Resource Group, Inc. ("MRG")	USA	US\$150,000	-	50%	Trading of flags and garden products	USA

Pursuant to the agreement dated 19 April 2005, Sangyang Spandex Co. Ltd. ("Sangyang Spandex"), a jointly-controlled entity of the Group, 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").

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.

On 25 October 2006, Bestever Development Limited ("Bestever"), a wholly owned subsidiary of the Group entered into a Shareholder Agreement (the "Agreement") with Bruce Warren Solly ("Solly"), the minority shareholder of Toland International Limited ("Toland"), a 70% owned subsidiary of the Group formed on the same date, to invest in and operate MRG as a joint venture. Pursuant to the Agreement, Bestever subscribed for 50% of the total authorised share capital of MRG at par for cash consideration of US\$75,000 (HK\$578,000).

MRG's and Sangyang Spandex's financial statements have been incorporated into the Group's 2006 and 2005 consolidated financial statements respectively using the equity method.

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	2006 HK\$'000	2005 HK\$'000
Share of the jointly controlled entity's assets and liabilities:		
- Non-current assets	78	-
- Current assets	2,817	-
	<b>2,895</b>	-
- Current liabilities	2,272	-
- Net assets	623	-
Share of the jointly controlled entities' results:		
- Income	4,237	-
- Expenses	(4,192)	(869)
- Profit/(Loss) for the year	45	(869)

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 22. AMOUNT DUE FROM A RELATED COMPANY

Details of amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower : Kiu Hung Holdings Limited

Directors connected with the borrower : Hui Kee Fung  
Hui Ki Yau  
Hui Hung Tan, Teresa

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Non-current portion	–	2,619
Current portion	<b>2,900</b>	5,513
	<b>2,900</b>	8,132
Maximum amount outstanding during the year	<b>8,132</b>	11,032

The amount due from a related company bears no interest and is repayable in four equal instalments of HK\$3,000,000 each, payable on 24 December 2005, 24 June 2006, 24 December 2006 and 24 June 2007.

The amount was stated at amortised cost using the effective interest rate of the Group at 6.9% per annum.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 23. INTANGIBLE ASSETS

#### Group

	Goodwill HK\$'000	Production and distribution rights HK\$'000	Trademark HK\$'000	License rights HK\$'000	Total HK\$'000
Carrying value at 1 January 2005	–	–	–	–	–
Acquisition of a subsidiary	261	–	–	–	261
Impairment	(261)	–	–	–	(261)
<b>Carrying value at 31 December 2005</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
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>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Carrying value at 1 January 2006	–	–	–	–	–
Addition	–	–	1,155	1,459	2,614
Amortisation charge	–	–	–	(190)	(190)
<b>Carrying value at 31 December 2006</b>	<b>–</b>	<b>–</b>	<b>1,155</b>	<b>1,269</b>	<b>2,424</b>
Gross amount at 31 December 2006	261	5,000	1,155	1,459	7,875
Accumulated impairment	(261)	(3,667)	–	–	(3,928)
Accumulated amortisation	–	(1,333)	–	(190)	(1,523)
<b>Carrying value at 31 December 2006</b>	<b>–</b>	<b>–</b>	<b>1,155</b>	<b>1,269</b>	<b>2,424</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 23. INTANGIBLE ASSETS *(Continued)*

#### Group *(Continued)*

During the year the Group entered into an Asset Purchase Agreement to acquire the right to the trade name of "Toland" for 99 years with a consideration of US\$150,000.

The Group also entered into a license agreement with Beijing Organizing Committee for the Games of the XXIX Olympiad for the right to manufacture official mascots of the Beijing 2008 Olympic Games souvenir products. The license expires on 31 December 2008. Professional consulting fee amounted to RMB1,500,000 (HK\$1,459,000) directly attributed to the obtainment of license is recognised as cost of license rights.

No contractual commitments resulting from these agreements were entered during the year.

Amortisation charge on the license rights is included in "cost of sales" of the consolidated income statement.

### 24. INVENTORIES

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>11,423</b>	10,358
Work in progress	3,675	3,228
Finished goods	2,701	791
	<b>17,799</b>	14,377
Less: Provision for slowing moving inventories	<b>(7,572)</b>	(6,768)
	<b>10,227</b>	7,609
The cost of inventories recognised as expense and included in cost of sales	<b>57,288</b>	40,174

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 25. TRADE AND OTHER RECEIVABLES

	Group	
	2006 HK\$'000	2005 HK\$'000
Trade and bills receivables	9,105	12,749
Prepayment, deposits and other receivables	1,716	1,796
	<b>10,821</b>	14,545

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 2006, the ageing analysis of the trade and bills receivables, net of provision, is as follows:

	2006 HK\$'000	2005 HK\$'000
0 – 30 days	4,878	6,679
31 – 90 days	3,799	5,990
91 – 180 days	274	80
181 – 360 days	154	–
	<b>9,105</b>	12,749

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 '000	2005 '000
US dollars	US\$1,123	US\$1,628
Renminbi	RMB460	RMB221

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Listed equity securities in Hong Kong held for trading, at fair value	<b>286</b>	286
Market value of listed securities held as at 31 December	<b>286</b>	286

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.

### 27. CASH AT BANKS AND IN HAND

Included in cash at banks and in hand is an amount of approximately HK\$64,994,000 (2005: HK\$36,732,000), 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.

### 28. TRADE AND OTHER PAYABLES

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Trade and bills payables	<b>7,632</b>	10,858
Other payables and accruals:		
Deposits received	<b>124</b>	940
Accrued expenses	<b>4,778</b>	4,687
Other taxes	-	28
	<b>4,902</b>	5,655
	<b>12,534</b>	16,513

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 28. TRADE AND OTHER PAYABLES *(Continued)*

The Group was granted by its suppliers credit periods of 30 to 90 days. Based on the invoice dates, the ageing analysis of the trade and bills payables was as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>2,098</b>	2,728
31 – 90 days	<b>3,675</b>	5,595
91 – 180 days	<b>1,633</b>	2,196
181 – 360 days	<b>18</b>	308
Over 360 days	<b>208</b>	31
	<b>7,632</b>	10,858

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>2006</b>	2005
	<b>'000</b>	'000
US dollars	<b>US\$189</b>	US\$8
Renminbi	<b>RMB4,804</b>	RMB6,615

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 29. BORROWINGS

	Group	
	2006 HK\$'000	2005 HK\$'000
<b>Non-current</b>		
Interest bearing bank loans	1,765	2,203
Finance lease liabilities	1	48
	<b>1,766</b>	2,251
<b>Current</b>		
Interest bearing bank loans	29,441	28,774
Interest bearing trust receipt loans	3,578	1,780
Finance lease liabilities	47	96
	<b>33,066</b>	30,650
Total borrowings	<b>34,832</b>	32,901
Secured	<b>34,832</b>	32,901

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 2006, the Group's bank loans and trust receipt loans (excluding finance lease liabilities) were repayable as follows:

	Group			
	Bank loans		Trust receipt loans	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	29,441	28,774	3,578	1,780
In the second year	475	445	-	-
In the third to fifth years	1,290	1,523	-	-
Wholly repayable within 5 years	31,206	30,742	3,578	1,780
After the fifth year	-	235	-	-
	<b>31,206</b>	30,977	<b>3,578</b>	1,780



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 29. BORROWINGS (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Due within one year	55	111
Due in the second to fifth years	1	56
	56	167
Future finance charges on finance leases	(8)	(23)
Present value of finance lease liabilities	48	144

The present value of finance lease liabilities is as follows:

Due within one year	47	96
Due in the second to fifth years	1	48
	48	144
Less: Portion due within one year included under current liabilities	(47)	(96)
Non-current portion included under non-current liabilities	1	48

At 31 December 2006, the banking facilities of the Group were secured by:

- (i) first legal charges on certain of the Group's buildings and leasehold land and buildings with carrying value of approximately HK\$10,180,000 (2005: HK\$10,200,000), HK\$9,860,000 (2005: HK\$9,300,000) respectively (note 16);
- (ii) corporate guarantees executed by the Company to the extent of HK\$14 million (2005: 14 million) and;
- (iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$22 million (2005: HK\$22 million).

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 29. BORROWINGS *(Continued)*

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Fixed-rate borrowings:		
Within one year	<b>26,147</b>	24,615
In more than one year but not more than two years	<b>1</b>	47
In more than two years but not more than three years	<b>–</b>	1
	<hr/>	<hr/>
	<b>26,148</b>	24,663
<hr/>		

In addition, the Group has variable-rate borrowings which are denominated in Hong Kong dollars and the rates are set at the range from HK Prime rate minus 1% per annum to HK prime rate per annum.

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

	<b>2006</b>	2005
<hr/>		
Effective interest rate:		
Fixed-rate borrowings	<b>3% p.a. to 7.605% p.a.</b>	3% p.a. to 7.25% p.a.
Variable-rate borrowings	<b>6.75% p.a. to 8.25% p.a.</b>	2.31% p.a. to 8.09% p.a.
<hr/>		

During the year, the Group obtained new loans in the amount of HK\$26,522,000. The loans bear interest rate at market rates and will be repayable in 2007. The proceeds were used to finance the Group's daily operations.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 30. SHARE CAPITAL

	Number of shares	As at 31 December 2006 HK\$'000	As at 31 December 2005 HK\$'000
Authorised:			
5,000,000,000 ordinary shares of HK\$0.02 each	5,000,000,000	100,000	100,000
	<b>Number of shares</b>	<b>Total HK\$'000</b>	
Issued and fully paid:			
At 1 January 2005 and 31 December 2005		2,213,820,000	44,277
Open offer of new shares issued		774,837,000	15,496
<b>At 31 December 2006</b>		<b>2,988,657,000</b>	<b>59,773</b>

Pursuant to the Company's announcement made on 6 July 2006 to make an open offer of 774,837,000 shares at HK\$0.05 per offer share on the basis of 7 offer shares for every 20 existing shares held on 31 July 2006, to raise approximately HK\$38,742,000, before expenses or HK\$37,244,000 after expenses. The open offer was closed on 14 August 2006, with 10.86% acceptance, the remaining offers were fully underwritten and became unconditional on 17 August 2006.

As a result of the open offer, the issued share capital of the Company was increased to HK\$59,773,000 by the capitalization of HK\$21,748,000, net of expenses, share premium. The 774,837,000 new shares issued rank pari passu in all respects with the existing shares of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 31. 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.

On 19 June 2006, the Company granted 94,500,000 share options with an exercise price of HK\$0.13 each to 42 individuals.

Pursuant to the Company's announcement dated 18 August 2006, the aggregate of 94,500,000 outstanding options exercisable at HK\$0.13 each have been adjusted in accordance with the terms of the Scheme to 120,960,000 options exercisable at HK\$0.1016 each, as a result of the open offer (see note 30).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 31. SHARE OPTIONS (Continued)

The following tables disclose movements in the share options:

Grantee	Share option type	Outstanding at 1 January 2006	Granted during the year	Outstanding at 31 December 2006
Employees	2006a	–	49,280,000	49,280,000
	2006b	–	67,840,000	67,840,000
Consultant		–	117,120,000	117,120,000
	2006a	–	3,840,000	3,840,000
		–	120,960,000	120,960,000

The consideration received in respect of share options granted amounted to HK\$42, representing HK\$1 per grantee.

There were no share options issued or outstanding for the year 2005.

Details of share options are as follows:

Share option type	Date of grant	Adjusted exercise price
2006a and 2006b	19 June 2006	HK\$0.1016

The share options are exercisable from 1 January 2007 to 18 June 2016 in the following manner:

Exercisable period	Maximum percentage of options exercisable	
	2006a	2006b
1 January 2007 to 30 June 2007	50%	15%
1 July 2007 to 31 December 2007	50%	15%
1 January 2008 to 31 December 2008	No limit	35%
1 January 2009 to 31 December 2009	No limit	35%
1 January 2010 to 18 June 2016	No limit	No limit

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 31. SHARE OPTIONS *(Continued)*

The following significant assumptions and estimates were used by the independent valuers to derive the fair value of options granted during the year, using the Black-Scholes option pricing model:

Expected volatility (based on historical volatility of the Company's shares)	48.916%
Expected life	10 years
Risk-free interest rate (being the approximate annual yield of 10-year Exchange Fund on the grant date)	5.14%
Expected dividend yield	Nil

In total, HK\$4,819,000 (2005: Nil) of the share-based payment has been included in the consolidated income statement for the year ended 31 December 2006, of which HK\$4,614,000 and HK\$205,000 has been included as employee compensation expense, and consultancy fee respectively, the corresponding amounts have been credited to equity compensation reserve (note 32).

The share-based payment of HK\$4,819,000 has been included in the Company's balance sheet as investment in subsidiaries and the corresponding amount has been credited to equity compensation reserve (note 32).

No liabilities were recognised due to share-based payment transactions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 32. RESERVES

### Group

	Other reserves						Sub-total	Retained profits	Total
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Equity compensation reserve	Assets revaluation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		(note(a))	(note(b))						
Balance at 31 December 2004 and 1 January 2005	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	-
Loss for the year	-	-	-	-	-	-	-	(41)	(41)
<b>At 31 December 2005</b>	<b>1,658</b>	<b>1,495</b>	<b>313</b>	<b>(1,455)</b>	<b>-</b>	<b>12,584</b>	<b>14,595</b>	<b>41,293</b>	<b>55,888</b>
At 31 December 2005 and 1 January 2006	1,658	1,495	313	(1,455)	-	12,584	14,595	41,293	55,888
Revaluation surplus	-	-	-	-	-	1,064	1,064	-	1,064
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(111)	(111)	-	(111)
Translation adjustments	-	-	-	2,733	-	-	2,733	-	2,733
Profit for the year	-	-	-	-	-	-	-	1,103	1,103
Proceeds from open offer of new shares issued, net (note 30)	21,748	-	-	-	-	-	21,748	-	21,748
Share-based compensation (note 31)	-	-	-	-	4,819	-	4,819	-	4,819
2006 proposed final dividend (note 12)	-	-	-	-	-	-	-	(299)	(299)
<b>At 31 December 2006</b>	<b>23,406</b>	<b>1,495</b>	<b>313</b>	<b>1,278</b>	<b>4,819</b>	<b>13,537</b>	<b>44,848</b>	<b>42,097</b>	<b>86,945</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 32. RESERVES (Continued)

## Company

	Share premium HK\$'000	Capital reserve HK\$'000 (note (b))	Equity compensation reserve HK\$'000	Retained profits/ (Accumulated loss) HK\$'000	Total HK\$'000
At 1 January 2005	1,658	125,161	–	1,986	128,805
Loss for the year	–	–	–	(26,109)	(26,109)
At 31 December 2005	1,658	125,161	–	(24,123)	102,696
Proceeds from open offer of new shares issued, net (note 30)	21,748	–	–	–	21,748
Share-based compensation (note 31 )	–	–	4,819	–	4,819
Profit for the year	–	–	–	38,823	38,823
2006 proposed final dividend (note 12)	–	–	–	(299)	(299)
<b>At 31 December 2006</b>	<b>23,406</b>	<b>125,161</b>	<b>4,819</b>	<b>14,401</b>	<b>167,787</b>

- (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 thereof.

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 thereof.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 33. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

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

#### Deferred tax liabilities

	Accelerated depreciation allowances		Revaluation of properties		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	1,101	1,265	2,663	2,461	3,764	3,726
Acquisition of a subsidiary	-	158	-	-	-	158
Credited to consolidated income statement	(46)	(322)	-	-	(46)	(322)
Charged to equity	-	-	111	202	111	202
At 31 December	1,055	1,101	2,774	2,663	3,829	3,764

#### Deferred tax assets

	Tax losses	
	2006	2005
	HK\$'000	HK\$'000
At 1 January	1,987	2,219
Charged to consolidated income statement	(1,436)	(232)
At 31 December	551	1,987

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK\$7,123,000 (2005: HK\$5,348,000) and HK\$3,853,000 (2005: HK\$3,853,000) respectively due to the unpredictability of future profit streams.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 34. 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.

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
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)
<hr/>		
Net liabilities acquired	-	(261)
Goodwill	-	261
<hr/>		
Consideration	-	-
<hr/>		
Satisfied by:-		
Cash	-	-
<hr/>		

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

#### (a) Acquisition of a subsidiary *(Continued)*

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Cash consideration	–	–
Cash acquired	–	529
Net cash inflow in respect of the acquisition of a subsidiary	–	529

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

#### (b) Disposal of subsidiaries

On 1 December 2006, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company entered into an agreement with Christopher Thomas Closson, the minority shareholder who held 49% interest in Jubilee Creation Inc. ("Jubilee"), a then non-wholly owned subsidiary of the Group, in relation to the disposal of the entire issued share capital of Pine Success Limited ("Pine Success"), a wholly owned subsidiary of Legend Wealth together with Jubilee, a 51% owned subsidiary of Pine Success ("the Disposal"). The entire issued share capital of Pine Success was disposed of for a consideration of HK\$1 in accordance with the agreement.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

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

#### (b) Disposal of subsidiaries *(Continued)*

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Net assets disposed of:		
Interest in a jointly controlled entity	–	26,681
Property, plant and equipment	–	2,991
Prepayment and other receivable	<b>327</b>	–
Cash	–	27
Other payables and accruals	–	(2,393)
Capital contribution payable to a jointly controlled entity	–	(13,983)
Provision for tax	–	(2,963)
	<b>327</b>	10,360
(Loss)/Gain on disposal of subsidiaries	<b>(327)</b>	2,740
<hr/>		
Consideration	–	13,100
<hr/>		
Satisfied by:		
Cash	–	2,068
Receivable from a related company	–	11,032
	–	13,100
<hr/>		

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Cash consideration received	–	2,068
Cash disposed of	–	(27)
	–	2,041
Net cash inflow in respect of the disposal of subsidiaries	–	2,041
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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 35. OPERATING LEASE ARRANGEMENT

(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 2006, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>23</b>	25

(b) As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms of two years (2005: two years).

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>270</b>	178

(c) At 31 December 2006 and 2005, the Company did not have any operating lease commitments whether as lessee or lessor.

### 36. CAPITAL COMMITMENTS

In accordance with the Capital Contribution Agreement dated 2 September 2006 entered into between Bright Asset Investments Limited, a wholly owned subsidiary of the Group, and Beijing Minrunfeng Trading Co., Ltd. ("Mingrunfeng") which was subsequently approved by shareholders of the Company at an extraordinary meeting on 16 April 2007, the Group has to make capital contribution of RMB20 million (HK\$20 million) to Mingrunfeng in return for 51% of the equity interest in Mingrunfeng (the "Capital Contribution"). RMB15 million (HK\$15 million) deposit has been paid to Mingrunfeng on 15 September 2006, in accordance with the Capital Contribution Agreement.

Accordingly, the Group has capital commitment of RMB5 million (HK\$5 million) for capital contribution in Mingrunfeng as of 31 December 2006.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 36. CAPITAL COMMITMENTS *(Continued)*

The Company did not have any other significant capital commitment at the balance sheet date (2005: Nil).

### 37. CORPORATE GUARANTEES

At 31 December 2006, the Company has executed corporate guarantees to certain of its subsidiaries to the extent of HK\$14 million (2005: HK\$14 million) to secure a mortgage loan and general banking facilities granted by banks. The amounts utilised as of 31 December 2006 amounted to HK\$8,684,000 (HK\$7,276,000).

The Group did not have any significant contingent liabilities at the balance sheet date (2005: Nil).

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantees which arose in the ordinary course of business and the fair value of the corporate guarantees granted by the Company is immaterial.

### 38. 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 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\$1,023,000 (2005: HK\$818,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2006 and 2005, 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 (2005: Nil) was available at 31 December 2006 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 2006 in respect of the retirement of its employees.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 39. 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>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Sales of goods to Miracles for Fun (HK) Limited ("MFF"), an associate of the Group	–	2,524
Sales of goods to Marketing Resource Group, Inc., a jointly controlled entity	<b>1,097</b>	–

Sales to MMF 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 34(a)). After then, all transactions and balances with MFF are eliminated on consolidation.

Sales to Marketing Resource Group, Inc. were conducted in the normal course of business at prices and terms no less than those charged to and contract with other third party customers of the Group.

(ii) Purchase of services

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Product development, sale and marketing services provided by Mr. Sanders and Miracles For Fun (USA), Inc. to MFF	1,390	–

Mr. Sanders is a director and a beneficial owner of 32% of the total issued share capital of MFF, a non-wholly owned subsidiary of the Group. Mr. Sanders is also the sole owner of Miracles For Fun (USA), Inc.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 39. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

#### (iii) Disposal of a subsidiary, Pine Success Limited, together with a non-wholly owned subsidiary

On 1 December 2006, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company entered into an agreement with Christopher Thomas Closson, the minority shareholder who held 49% interest in Jubilee Creation Inc. ("Jubilee"), a then non-wholly owned subsidiary of the Group, in relation to the disposal of the entire issued share capital of Pine Success Limited ("Pine Success"), a wholly owned subsidiary of Legend Wealth together with Jubilee, a 51% owned subsidiary of Pine Success ("the Disposal"). The entire issued share capital of Pine Success was disposed of for a consideration of HK\$1 in accordance with the agreement. The impact of the Disposal on the Group is disclosed in note 34(b).

#### (iv) Interest income from a related company

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 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 then wholly owned subsidiary of Legend Wealth. According to the agreement, the assets to be disposed of are the entire issued share capital of Huge Profit and the shareholder's loan in the sum of HK\$14,029,904 owing by Huge Profit to Legend Wealth.

As at 31 December 2006, included in total consideration of HK\$14,029,904, HK\$3,000,000 (2005: HK\$9,000,000) was still outstanding from Kiu Hung Holdings Limited and will be collected by the Group in one instalment (2005: three instalments). Such outstanding consideration has been recorded as amount due from a related company at amortised cost of HK\$2,900,000 (2005: HK\$8,132,000) (note 22) and the related interest income for the year is HK\$768,000 (2005: HK\$100,000).



## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 40. FINANCIAL RISK MANAGEMENT OBJECTIVE 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.

#### 40.1 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.

#### 40.2 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 29. The Group currently does not have an interest rate hedging policy.

#### 40.3 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 2006 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 40. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

#### 40.4 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.

#### 40.5 Liquidity risk

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

### 41. POST BALANCE SHEET EVENTS

#### 41.1 Acquisitions of subsidiaries

On 16 January 2007, Bright Asset Investments Limited ("Bright Asset"), an indirectly wholly owned subsidiary of the Company entered into an agreement with the shareholder of Jumplex Investments Limited ("Jumplex") for the acquisition of the entire issued share capital of Jumplex and a shareholder loan owed by Jumplex to its shareholder at a consideration of approximately HK\$14.6 million which will be satisfied by the allotment and issue of 44,350,175 consideration shares at an issue price of HK\$0.33 per share (the "Jumplex Acquisition"). Jumplex holds a 12.24% equity interest in Beijing Mingrunfeng Trading Co., Ltd. ("Mingrunfeng") as of the date of this report. Upon completion of the Jumplex Acquisition, Jumplex will become a wholly-owned subsidiary of the Company. After taking into account of the effect of the Capital Contribution (note 36), 6% equity interest in Mingrunfeng held by Jumplex will be indirectly owned by the Company upon completion of the Jumplex Acquisition.

On 16 January 2007, Bright Asset entered into an agreement with the shareholder of First Choice Resources Limited ("First Choice") for the acquisition of the entire issued share capital of First Choice and a shareholder loan owed by First Choice to its shareholder at a consideration of approximately HK\$19.5 million which will be satisfied by the allotment and issue of 59,103,859 consideration shares at an issue price of HK\$0.33 per share (the "First Choice Acquisition"). First Choice holds a 16.33% equity interest in Mingrunfeng as of the date of this report. Upon completion of the First Choice Acquisition, First Choice will become a wholly-owned subsidiary of the Company. After taking into account of the effect of the Capital Contribution (note 36), 8% equity interest in Mingrunfeng held by First Choice will be indirectly owned by the Company upon completion of the First Choice Acquisition.

On 16 January 2007, Bright Asset entered into an agreement with the shareholders of Wise House Limited ("Wise House") for the acquisition of the entire issued share capital of Wise House at a consideration of approximately HK\$46.3 million which will be satisfied by the allotment and issue of 140,338,246 consideration shares at an issue price of HK\$0.33 per share (the "Wise House Acquisition"). Wise House holds a 38.78% equity interest in Mingrunfeng as of the date of this report. Upon completion of the Wise House Acquisition, Wise House will become a wholly-owned subsidiary of the Company. After taking into account of the effect of the Capital Contribution (note 36), 19% equity interest in Mingrunfeng held by Wise House will be indirectly owned by the Company upon completion of the Wise House Acquisition.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 41. POST BALANCE SHEET EVENTS *(Continued)*

#### 41.1 Acquisitions of subsidiaries *(Continued)*

On 16 January 2007, Bright Asset entered into an agreement with Mr. Yang Runzhi ("Mr. Yang") for the acquisition of 16% equity interest in Mingrunfeng, after the completion of the Capital Contribution (note 36), at a consideration of approximately HK\$39.0 million which will be satisfied by the allotment and issue of 118,207,720 consideration shares at an issue price of HK\$0.33 per share (the "Second Acquisition").

The Jumplex Acquisition, the First Choice Acquisition, the Wise House Acquisition and the Second Acquisition have been approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 16 April 2007.

Upon completion of the Capital Contribution, the Jumplex Acquisition, the First Choice Acquisition, the Wise House Acquisition and the Second Acquisition, Mingrunfeng will become an indirect wholly-owned subsidiary of the Company.

The directors are currently assessing fair value of assets acquired from this transaction and accordingly an estimate of the goodwill arising from the acquisitions can not be made at this stage.

Please refer to the Company's circular dated 30 March 2007 for further details.

#### 41.2 Loan facility agreements and draw downs in relation to Mingrunfeng

On 20 January 2007, Jumplex, First Choice, Wise House, Mingrunfeng, Mr. Yang and an independent third party entered into a loan facility agreement. Pursuant to the agreement, the lender has provided a loan in the amount of RMB1.5 million (equivalent to approximately HK\$1.5 million) to Mingrunfeng which bear interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007.

On 19 March 2007, Jumplex, First Choice, Wise House, Mingrunfeng and Mr. Yang further entered into two loan facility agreements with two independent third parties. Pursuant to the agreements, each of the two lenders will provide loans in the amount of RMB3 million (equivalent to approximately HK\$3 million) to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The full amount of RMB6 million (equivalent to approximately HK\$6 million) had been drawn by Mingrunfeng of which RMB3 million (equivalent to approximately HK\$3 million) is due for repayment on or before 21 September 2007 and RMB3 million (equivalent to approximately HK\$3 million) is due for repayment on or before 22 September 2007.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 41. POST BALANCE SHEET EVENTS *(Continued)*

#### 41.2 Loan facility agreements and draw downs in relation to Mingrunfeng *(Continued)*

Pursuant to a loan agreement entered by Jumplex, First Choice, Wise House, and Mingrunfeng with an independent third party on 16 November 2006, the lender will provide a loan of RMB2 million (equivalent to approximately HK\$2 million) to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. Mingrunfeng has drawn down RMB0.5 million (equivalent to HK\$0.5 million), RMB0.5 million (equivalent to HK\$0.5 million) and RMB1 million (equivalent to HK\$1 million) on 22 December 2006, 8 January 2007 and 27 March 2007, respectively. The loans are repayable on 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

As of the date of report, Mingrunfeng has drawn down an aggregate amount of RMB9.5 million (equivalent to approximately HK\$9.5 million) from the above loan facilities.

The above loan amounts are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.

#### 41.3 Loan facility agreement between Bright Asset and Mingrunfeng

On 22 September 2006, Bright Asset has entered into a loan facility agreement (the "Loan Facility Agreement") with Mingrunfeng. Pursuant to the Loan Facility Agreement, Bright Asset has agreed to provide Mingrunfeng a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK\$40 million) (the "Loan Facility"). The Loan Facility shall be for a term of three years commencing from the date of the first drawdown made by Mingrunfeng. Bright Asset shall have the absolute discretion to demand Mingrunfeng to repay, in whole or in part, the principal and interest for the time being outstanding within 30 days upon giving a written notice to Mingrunfeng. The amount drawn under the Loan Facility shall bear interest at the rate of 3% per annum above the Hong Kong Dollar Prime Rate quoted by The Bank of China (Hong Kong) Limited from time to time, and is payable by Mingrunfeng on a quarterly basis. In addition, Mingrunfeng shall procure Mr. Yang, Jumplex, First Choice and Wise House to provide irrevocable guarantee to Bright Asset for any loan amount drawn by Mingrunfeng in proportion to their respective equity interest in Mingrunfeng from time to time.

The Loan Facility Agreement has been approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 16 April 2007.

#### 41.4 Guarantee agreement

On 22 September 2006, Bright Asset, Mr. Yang, Jumplex, First Choice and Wise House entered into a guarantee agreement pursuant to which, after the approval of the Capital Contribution Agreement by the relevant government authorities and the completion of the necessary procedures to change the particulars in the business license of Mingrunfeng, Bright Asset, Mr. Yang, Jumplex, First Choice and Wise House shall provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective equity interests in Mingrunfeng from time to time and in the form that the lenders of such loan facility may accept should the lenders of such loan facility demand for guarantee being provided by the shareholders of Mingrunfeng (the "Guarantee Agreement").

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 41. POST BALANCE SHEET EVENTS *(Continued)*

#### 41.4 Guarantee agreement *(Continued)*

The Guarantee Agreement will still be valid after Mingrunfeng becomes a wholly-owned subsidiary of the Group. However, as Mr. Yang, Jumplex, First Choice and Wise House will not have any shares in Mingrunfeng and the Guarantee Agreement only requires that the shareholders provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng, Mr. Yang, Jumplex, First Choice and Wise House will not be required to provide such guarantees upon completion of all the Capital Contribution, the Jumplex Acquisition, the First Choice Acquisition, the Wise House Acquisition and Second Acquisition.

The Guarantee Agreement has been approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 16 April 2007.

#### 41.5 Transfer of exploration license

On 10 March 2007, Mingrunfeng entered into a supplemental agreement (the "Supplemental Agreement") of the Co-Operation Agreement dated 15 June 2006 with Xilinguole Guoxin Mines Co., Ltd. ("Guoxin") in relation to the transfer of the exploration licence (the "Exploration License") of the Guerbanhada Coal Mine (the "Coal Mine"). Pursuant to the Supplemental Agreement, Guoxin will transfer the Exploration License to Mingrunfeng upon the payment by Mingrunfeng of (i) RMB5 million (HK\$5 million) to Guoxin as prepayment of part of the 20% of the value of the exploration rights of the Coal Mine, being the consideration for the transfer of the Exploration License and (ii) RMB2,278,000 (HK\$2,278,000) to the Department of Land and Resources of the Inner Mongolia Autonomous Region as the premium for the transfer of the Exploration License. The Supplemental Agreement also specified that any remaining cash consideration for the transfer of the Exploration License shall be paid to Guoxin within three months after the value of the exploration rights of the Coal Mine is being appraised by an independent valuation institution. Mingrunfeng has paid RMB5 million and RMB2,278,000 to Guoxin and the Department of Land and Resources of the Inner Mongolia Autonomous Region on 26 March 2007, respectively. The transfer of the Exploration License to Mingrunfeng has been completed on 2 April 2007.

#### 41.6 Exercise of share option

Subsequent to the balance sheet date and up to the date of this report, a total of 8,935,200 share options have been exercised by the option holders which resulted in the allotment and issue of 8,935,200 new ordinary shares in the Company at an exercise price of HK\$0.1016 per share for a total consideration of approximately HK\$908,000.

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**Kiu Hung International Holdings Limited**

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