

## Notes to the Accounts

31 December 2001

### 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below.

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The accounts are prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investment in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events After The Balance Sheet Date
SSAP 14 (revised)	:	Leases (effective for period commencing on or after 1 July 2000)
SSAP 26	:	Segment Reporting
SSAP 30	:	Business Combinations

The changes to the Group’s accounting policies and the effect of adopting these new standards are set out in the accounting policies below.

#### (b) Group accounting

##### (i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31 December. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are recorded in the Company’s books at cost, being the fair value of the consideration given plus related acquisition costs, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Negative goodwill arising on consolidation represents the excess of fair value of the net assets of subsidiaries acquired over the purchase consideration. Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the net assets of subsidiaries acquired. Any goodwill/negative goodwill on acquisition of subsidiaries occurring on or after 1 January 2001 is included as an intangible asset and amortised over its estimated useful economic life in accordance with the provisions in SSAP 30. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/negative goodwill arising prior to 1 January 2001 has not been retroactively restated.

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In prior years, any goodwill or negative goodwill on acquisition of subsidiaries was charged or credited, as appropriate, directly to reserves on consolidation.

The turnover and results of subsidiaries are included in the group accounts from the date of their acquisition. In the case of disposals, turnover and results are included up to the date of disposal.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or reserve on consolidation which was not previously charged or recognised in the consolidated profit and loss account.

### (ii) *Associated companies*

Associated companies are companies other than subsidiaries in which the Group effectively holds a long term equity investment and over whose management it is able to exercise significant influence.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of associated companies.

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of associated companies, is recognised as an asset and amortised through the consolidated profit and loss account over their estimated economic lives to the Group of between three and fifteen years as deemed appropriate.

### (c) **Fixed assets**

#### (i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

## Notes to the Accounts

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (c) Fixed assets (Cont'd)

##### (ii) Other fixed assets

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the costs of these assets on a straight line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

	Revised Percent	Original Percent
Land	Over lease term	N/A
Buildings	2.5	N/A
Machinery, equipment, furniture and fixtures	10 to 13	12.5 to 20
Motor vehicles	20	20
Computers	20 to 25	20 to 33

Effective from 1 January 2001, the estimated useful lives of certain machinery, equipment, furniture and fixtures and computers were changed. This change in accounting estimates has been made to reflect the expected patterns of economic benefits from these assets. The effect of this change was not material to the current year.

The Group owns the moulds and tools used in the production of the Group's products by third party manufacturers. Substantially all moulds and tools expenditure is depreciated in full in the year of initial product shipment.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether the recoverable amounts of other fixed assets have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount.

The gain or loss on disposal of other fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (d) Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the profit and loss account on a straight line basis over the lease term.

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SSAP 14 (revised) prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of SSAP 14 (revised) by the Group does not have any impact on the financial statements except that certain comparative figures and disclosures on operating lease commitments have been adjusted and extended to conform with the current year's presentation.

**(e) Other investments**

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

**(f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(g) Accounts receivable**

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(h) Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(i) Revenue recognition**

Revenue from sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Rental income from letting the Group's portfolio of investment properties is recognised on a straight line basis over the lease term.

Property management income is recognised when services are rendered.

## Notes to the Accounts

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (j) Advertising and marketing expenses, advanced royalties and product development costs

Advertising and marketing expenses are written off as incurred, except for the production costs of commercials and related programming costs which are deferred and written off in the year the commercial is first aired.

Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements. All prepayments with respect to these agreements are recoupable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

Expenses relating to product development are deferred and charged to the profit and loss account in the year of initial product shipment.

#### (k) Retirement benefits

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

#### (l) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank deposits, bank loans with original maturity within three months and bank overdrafts.

#### (n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with as a movement in reserve.

## Notes to the Accounts

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### (o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical one as the secondary reporting format.

Unallocated costs represent mainly corporate and inactive subsidiaries' expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and exclude other investments. Segment liabilities comprise bank loans and operating liabilities. Capital expenditure comprises additions to fixed assets (Note 12), including additions resulting from acquisition of a subsidiary (Note 23).

In respect of geographical segment reporting, turnover and results are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### (p) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform with the changed policy.

As detailed in Note 21, opening retained profits of the Group at 1 January 2000 have increased by HK\$206,214,000 which is the reversal of the provision for the 1999 proposed final and special dividends previously recorded as liabilities as at 31 December 1999 and not declared until after the balance sheet date. Opening retained profits of the Group at 1 January 2001 have increased by HK\$10,091,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31 December 2000 and not declared until after the balance sheet date.

A corresponding decrease in current liabilities by HK\$10,091,000 has been reflected in the comparative 31 December 2000 balance sheet.

## Notes to the Accounts

31 December 2001

### 2. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management. Revenues recognised during the year are as follows:

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Turnover		
Sales of goods	490,022	971,030
Rental income from investment properties	22,839	213
Property management income	1,756	—
	<b>514,617</b>	971,243
Other revenues		
Interest income from bank deposits	7,851	25,401
Dividend income from listed investments	198	1,060
	<u>8,049</u>	<u>26,461</u>
Total revenues	<u><b>522,666</b></u>	<u><b>997,704</b></u>

## Notes to the Accounts

31 December 2001

### Business segment

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2001			Group HK\$'000
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	
<b>Revenue</b>				
Turnover	490,022	24,595	—	514,617
Inter-segment revenue (Note iii)	—	3,657	(3,657)	—
	<u>490,022</u>	<u>28,252</u>	<u>(3,657)</u>	<u>514,617</u>
<b>Results</b>				
Segment results	(109,321)	13,500	—	(95,821)
Inter-segment transactions	(3,657)	3,657	—	—
	<u>(112,978)</u>	<u>17,157</u>	<u>—</u>	<u>(95,821)</u>
Unallocated costs				<u>(1,472)</u>
Operating loss				<u>(97,293)</u>
<b>Assets</b>				
Segment assets	126,892	553,047	(852)	679,087
Investment in associated companies	45,554	—	—	<u>45,554</u>
				724,641
Unallocated assets				<u>250,268</u>
Total assets				<u>974,909</u>
<b>Liabilities</b>				
Segment liabilities	266,986	190,905	(852)	457,039
Unallocated liabilities				<u>3,325</u>
Total liabilities				<u>460,364</u>
<b>Other Information</b>				
Capital expenditure	27,106	516,710		
Depreciation	33,639	1,954		



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31 December 2001

### 2. TURNOVER, REVENUES AND SEGMENT INFORMATION (CONT'D)

#### Business segment (Cont'd)

	Year ended 31 December 2000		
	Toys <i>HK\$'000</i>	Property investment and management <i>HK\$'000</i>	Group <i>HK\$'000</i>
<b>Revenue</b>			
Turnover	<u>971,030</u>	<u>213</u>	<u>971,243</u>
<b>Results</b>			
Segment results	<u>(35,706)</u>	<u>24</u>	(35,682)
Unallocated costs			<u>(896)</u>
Operating loss			<u>(36,578)</u>
<b>Assets</b>			
Segment assets	304,807	56,944	361,751
Investment in associated companies	53,974	—	<u>53,974</u>
			415,725
Unallocated assets			<u>404,697</u>
Total assets			<u>820,422</u>
<b>Liabilities</b>			
Segment liabilities	288,794	1,355	290,149
Unallocated liabilities			<u>22,957</u>
Total liabilities			<u>313,106</u>
<b>Other Information</b>			
Capital expenditure	3,594	25,002	
Depreciation	12,872	—	

## Notes to the Accounts

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*Notes:*

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net profit after taxation of associated companies for the year amounted to HK\$3,849,000 (2000: HK\$18,681,000), which has not been included in the segment results shown above.

### Geographical segments

A geographical analysis of the Group's turnover, segment results, segment assets and capital expenditure is as follows:

	Turnover	Segment results	Segment assets	Capital expenditure
	2001	2001	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
North America	432,413	(106,934)	111,250	26,389
Europe	47,842	(1,792)	—	—
Asia Pacific	32,888	12,891	567,837	517,427
Others	1,474	14	—	—
	<u>514,617</u>	<u>(95,821)</u>	<u>679,087</u>	<u>543,816</u>
		Segment		
	Turnover	results	Segment	Capital
	As restated	As restated	assets	expenditure
	2000	2000	2000	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
North America	866,079	(49,023)	246,374	2,654
Europe	88,407	12,669	—	—
Asia Pacific	12,867	1,068	115,377	25,942
Others	3,890	(396)	—	—
	<u>971,243</u>	<u>(35,682)</u>	<u>361,751</u>	<u>28,596</u>

*Note:* Operating profit from the Asia Pacific market in 2001 is generated mainly from property investment and management business in Hong Kong.

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### 3. OPERATING LOSS

The operating loss is stated after charging the following:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cost of inventories sold	222,853	443,958
Depreciation of fixed assets	35,593	12,872
Staff costs	81,719	86,127
Operating lease expenses		
— Office and warehouse facilities	10,886	12,820
— Hire of equipment	27	286
Loss on disposal of fixed assets	59	1,635
Loss on liquidation of subsidiaries	203	—
Product development costs	25,533	25,176
Revaluation deficit on investment properties not covered by previous surplus (Note 12)	1,558	—
Outgoings in respect of investment properties	1,708	22
Auditors' remuneration	<u>1,350</u>	<u>1,436</u>

### 4. INTEREST EXPENSE AND BANK CHARGES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts	15,995	11,186
Other incidental borrowing costs	<u>2,519</u>	<u>3,005</u>
	<u>18,514</u>	<u>14,191</u>

### 5. NET GAIN ON INVESTMENT IN SECURITIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net realised gain on disposal of investment securities	—	186,269
Net realised gain on other investments	13,862	937
Net unrealised loss on other investments	<u>(1,572)</u>	<u>(65,709)</u>
	<u>12,290</u>	<u>121,497</u>

**Notes to the Accounts**  
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**6. TAXATION CREDIT/(CHARGE)**

(a) The taxation credit/(charge) in the consolidated profit and loss account comprises:

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong profits tax		
Current year	(1,373)	(1,589)
Prior years	6,084	(135)
Transferred to deferred taxation account	—	(100)
	4,711	(1,824)
Overseas taxation		
Current year	(94)	—
Prior years	203	—
	109	—
Share of taxation attributable to associated companies	338	(2,612)
	5,158	(4,436)

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

(b) The movements in the deferred taxation account are as follows:

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Balance at 1 January	—	100
Transferred from profit and loss account	—	(100)
Balance at 31 December	—	—

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### 6. TAXATION CREDIT/(CHARGE) (CONT'D)

(c) Details of unprovided deferred tax assets/(liabilities) as at the year end are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Differences in depreciation allowances	(106)	367
Unutilised tax losses	106,585	92,536
Other timing differences	56,082	106,726
	<u>162,561</u>	<u>199,629</u>

Unutilised tax losses of HK\$17,063,000 as at 31 December 2001 will expire within five years from that date.

### 7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$299,171,000 (2000 (restated): a profit of HK\$9,891,000) as set out in Note 21(b).

### 8. DIVIDENDS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
2000 final dividend paid of HK\$0.01 (2000: 1999 final and special dividends paid of HK\$0.31) per share	10,091	206,214
Underprovision for 1999 final and special dividends	—	2,928
2001 interim dividend paid of HK\$nil (2000: HK\$0.02) per share	—	13,454
	<u>10,091</u>	<u>222,596</u>

The previously recorded final and special dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 December 1999 and 2000 amounted to HK\$206,214,000 and HK\$10,091,000 respectively. Under the Group's new accounting policy as described in Note 1(p), these have been written back against opening reserves as at 1 January 2000 and 2001 respectively in Note 21 and are now charged in the period in which they are proposed.

The Directors do not recommend the payment of final dividend for the current year.

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**9. (LOSS)/EARNINGS PER SHARE**

The calculation of basic and diluted (loss)/earnings per share is based on the following data:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
(Loss)/profit attributable to shareholders for the purpose of calculating basic and diluted (loss)/earnings per share	<u>(86,799)</u>	<u>114,046</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	940,863,630	670,094,815
Number of potential ordinary shares issuable under share options	<u>N/A</u>	<u>2,057,637</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	<u>N/A</u>	<u>672,152,452</u>

No diluted loss per share has been presented for the current year as the exercise of share options would be anti-dilutive.

The basic and diluted earnings per share for the prior year has not been adjusted for the rights issue completed on 16 March 2001 as the rights issue does not give rise to a bonus element.

**10. RETIREMENT BENEFIT COSTS**

The amounts of retirement benefit costs charged and forfeited contributions utilised by the Group during the year amounted to HK\$2,912,000 (2000: HK\$2,795,000) and HK\$368,000 (2000: HK\$570,000) respectively. There was no unutilised forfeited contributions as at 31 December 2001 (2000: Nil).

Contributions totalling HK\$nil (2000: HK\$97,000) were payable to the schemes at the year end and are included in other payables and accrued charges.

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### 11. EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

#### (a) Directors' emoluments

The aggregate amounts of the directors' emoluments are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	200	200
Basic salaries, housing allowances, other allowances and benefits in kind	6,710	6,724
Pension contributions	<u>282</u>	<u>276</u>
	<u><u>7,192</u></u>	<u><u>7,200</u></u>

Directors' emoluments include directors' fees of HK\$200,000 (2000: HK\$200,000) and other emoluments of HK\$150,000 (2000: HK\$150,000) payable to the non-executive directors.

The numbers of directors whose emoluments for the year fell within the designated bands are as follows:

	Number of directors	
	2001	2000
HK\$		
up to 1,000,000	6	5
1,000,001 - 1,500,000	—	1
1,500,001 - 2,000,000	2	—
2,000,001 - 2,500,000	—	2
2,500,001 - 3,000,000	1	—

No director has waived emoluments in respect of the years ended 31 December 2001 and 2000.

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### (b) Five highest paid employees' emoluments

Among the five top-paid employees, two (2000: one) are executive directors whose remuneration during the period of directorship is disclosed above. Total remuneration of the director before appointment and the other three (2000: four) highest paid employees, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited, are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	7,800	9,218
Pension contributions	297	231
Compensation for loss of office	<u>—</u>	<u>3,523</u>
	<u><u>8,097</u></u>	<u><u>12,972</u></u>

The emoluments of these highest paid employees fell within the following bands:

	Number of employees	
HK\$	2001	2000
1,000,001 - 1,500,000	1	—
2,000,001 - 2,500,000	3	1
2,500,001 - 3,000,000	—	1
3,000,001 - 3,500,000	—	1
4,500,001 - 5,000,000	—	1



**Notes to the Accounts**  
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**12. FIXED ASSETS — GROUP**

	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Machinery, equipment, furniture and fixtures <i>HK\$'000</i>	Moulds and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computers <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost or valuation</b>							
At 1 January 2001	26,720	—	35,795	326,343	2,565	33,777	425,200
Exchange movement	—	—	63	4	—	67	134
Additions	18,710	—	526	26,003	—	577	45,816
Purchase of a subsidiary	411,717	86,283	—	—	—	—	498,000
Reclassification	84,329	(86,283)	—	—	—	—	(1,954)
Deficit on revaluation	(3,276)	—	—	—	—	—	(3,276)
Disposals	—	—	(2,936)	(265)	—	(673)	(3,874)
At 31 December 2001	<u>538,200</u>	<u>—</u>	<u>33,448</u>	<u>352,085</u>	<u>2,565</u>	<u>33,748</u>	<u>960,046</u>
<b>Accumulated depreciation</b>							
At 1 January 2001	—	—	28,273	326,343	2,115	19,040	375,771
Exchange movement	—	—	47	4	—	33	84
Charge for the year	—	1,954	2,974	26,003	100	4,562	35,593
Reclassification	—	(1,954)	—	—	—	—	(1,954)
Disposals	—	—	(2,876)	(265)	—	(674)	(3,815)
At 31 December 2001	<u>—</u>	<u>—</u>	<u>28,418</u>	<u>352,085</u>	<u>2,215</u>	<u>22,961</u>	<u>405,679</u>
<b>Net book value</b>							
At 31 December 2001	<u><u>538,200</u></u>	<u><u>—</u></u>	<u><u>5,030</u></u>	<u><u>—</u></u>	<u><u>350</u></u>	<u><u>10,787</u></u>	<u><u>554,367</u></u>
At 31 December 2000	<u><u>26,720</u></u>	<u><u>—</u></u>	<u><u>7,522</u></u>	<u><u>—</u></u>	<u><u>450</u></u>	<u><u>14,737</u></u>	<u><u>49,429</u></u>

The Group's interests in investment properties at their net book values are analysed as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
In Hong Kong, held on:		
Lease of over 50 years	17,700	—
Leases of between 10 to 50 years	<u>520,500</u>	<u>26,720</u>
	<u><u>538,200</u></u>	<u><u>26,720</u></u>

The investment properties were revalued by B.I. Appraisals, an independent professional valuer, on an open market value basis as at 31 December 2001. The deficit arising on revaluation is first set off against the investment properties revaluation reserve of HK\$1,718,000 (Note 21 (a)) and the remaining amount of HK\$1,558,000 is charged to the profit and loss account (Note 3).

## Notes to the Accounts

31 December 2001

Other fixed assets are stated at cost.

Details of the principal property of the Group as at 31 December 2001 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq.ft.	100%

### 13. INVESTMENT IN SUBSIDIARIES — COMPANY

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	10,702	543,891
Less: Provision for impairment losses	<u>(7,525)</u>	<u>(298,995)</u>
	3,177	244,896
Amounts due from subsidiaries, net of provisions	825,850	196,985
Amounts due to subsidiaries	<u>(202,220)</u>	<u>(201,150)</u>
	<u><u>626,807</u></u>	<u><u>240,731</u></u>

The amounts due from/to subsidiaries are unsecured, have no fixed terms of repayment and are interest free except for the amounts due from subsidiaries of HK\$307,596,000 (2000: HK\$nil) which bear interest at Hong Kong Interbank Money Market Offer Rate.

## Notes to the Accounts

31 December 2001

### 13. INVESTMENT IN SUBSIDIARIES — COMPANY (CONT'D)

Details of the principal subsidiaries of the Company as at 31 December 2001 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities and place of operation
Shares held directly:				
Playmates International Limited	The British Virgin Islands	5 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
Shares held indirectly:				
Playmates Asia Services Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Provision of services, based in Hong Kong
Belmont Limited (formerly known as Pretty Star Limited)	Hong Kong	100 ordinary shares of HK\$1 each	100%	Property investment in Hong Kong
Cityway Properties Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment in Hong Kong
Supreme Base Properties Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment in Hong Kong
Pacific Management Group Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Property management in Hong Kong
Playmates Finance Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
Profit Point Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
Playmates Toys Inc.	U.S.A.	120,000 common stock of US\$30 each	100%	Toys development, marketing and distribution in the U.S.A.
Regarding Play Inc.	U.S.A.	200,000 shares of US\$0.01 each	90%	Toys development, marketing and distribution in the U.S.A.

The above table includes 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 Accounts

31 December 2001

### 14. INVESTMENT IN ASSOCIATED COMPANIES — GROUP

	2001	As restated 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets other than goodwill	21,732	28,799
Share of goodwill	<u>10,823</u>	<u>12,176</u>
Loan to an associated company	<u>32,555</u>	40,975
	<u>12,999</u>	<u>12,999</u>
	<u>45,554</u>	<u>53,974</u>
Investment at cost, unlisted shares	<u>18,078</u>	<u>18,078</u>

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

As at 31 December 2001, the Group held interests in the following associated companies:

Name of company	Place of incorporation	Particulars of issued shares held	Effective percentage holding
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	Ordinary shares of US\$1 each	49%
Nippon Toys Limited ("NTL")	Hong Kong	Ordinary shares of HK\$1 each	50%

The associated companies are held indirectly by the Company and operate in Hong Kong.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys and dolls.

The principal business of NTL is to develop and act as sourcing and purchasing agent of finished products such as toys, novelties, sales promotion items, premiums and gift products.

## Notes to the Accounts

31 December 2001

### 15. OTHER INVESTMENTS — GROUP

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Equity securities listed in Hong Kong, at market value		
— Non-current	35,650	50,473
— Current	<u>12,923</u>	<u>28,013</u>
	<u><u>48,573</u></u>	<u><u>78,486</u></u>

### 16. INVENTORIES — GROUP

At 31 December 2001, inventories that are carried at net realisable value amounted to HK\$14,604,000 (2000: HK\$19,211,000).

### 17. TRADE RECEIVABLES — GROUP

As at 31 December 2001, 88% (2000: 98%) of the trade receivables net of provisions were current to 30 days, 1% (2000: 1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is normally granted to tenants.

### 18. BANK LOANS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	108,827	84,096
In the second year	12,326	—
In the third to fifth year	41,915	—
After the fifth year	<u>112,213</u>	<u>—</u>
	275,281	84,096
Unsecured bank loan payable within one year	<u>12,000</u>	<u>—</u>
	287,281	84,096
Current portion included in current liabilities	<u>(120,827)</u>	<u>(84,096)</u>
	<u><u>166,454</u></u>	<u><u>—</u></u>

As at 31 December 2001, the Group has banking facilities amounting to approximately HK\$534 million (2000:HK\$517 million), of which HK\$287 million (2000: HK\$84 million) were utilised.

The banking facilities of certain subsidiaries are secured by inventories of HK\$14 million (2000:HK\$19 million), gross trade receivables of HK\$48 million (2000: HK\$216 million), bank balance of HK\$64 million (2000: HK\$66 million) and investment properties with aggregate net book value of HK\$538 million (2000:HK\$ nil) of the Group at 31 December 2001.

## Notes to the Accounts

31 December 2001

### 19. TRADE PAYABLES — GROUP

As at 31 December 2001, 57% (2000: 25%) of the trade payables were current to 30 days, 37% (2000: 73%) were 31 to 60 days and the remaining were over 60 days.

### 20. SHARE CAPITAL

	<b>Authorised Ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2000 and 2001	1,500,000,000	150,000
Increase in authorised ordinary share capital (Note i)	<u>1,500,000,000</u>	<u>150,000</u>
<b>At 31 December 2001</b>	<b><u>3,000,000,000</u></b>	<b><u>300,000</u></b>
	<b>Issued and fully paid Ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2000	661,065,673	66,107
Exercise of options	13,988,000	1,398
Repurchase of shares	<u>(2,350,000)</u>	<u>(235)</u>
At 1 January 2001	672,703,673	67,270
Issue of shares (Note ii)	<u>336,351,836</u>	<u>33,636</u>
<b>At 31 December 2001</b>	<b><u>1,009,055,509</u></b>	<b><u>100,906</u></b>

Notes:

- (i) By an ordinary resolution passed on 22 May 2001, the authorised share capital of the Company was increased from HK\$150 million to HK\$300 million through the creation of 1,500,000,000 ordinary shares of HK\$0.10 each.
- (ii) The Group raised net proceeds of approximately HK\$105 million by way of a rights issue of one rights share at HK\$0.32 per share for every two existing shares held on 26 February 2001. The issue became unconditional on 16 March 2001 and 336,351,836 shares were issued and allotted accordingly. The share capital and share premium were then increased by HK\$33,636,000 and HK\$71,489,000 respectively after setting off issuing expenses of HK\$2,508,000.

#### Share Options

Pursuant to the Share Option Plan approved and adopted on 4 May 1998, options to subscribe for 23,670,000 ordinary shares of the Company have been granted to selected employees during the year. The grantees are entitled to exercise their options at a price of HK\$0.300 or HK\$0.304 per share. At 31 December 2001 there were 52,465,000 options outstanding which are exercisable in stages from the date of grant and no option will be exercisable later than 10 years after the date of grant.

**Notes to the Accounts**  
31 December 2001

**21. RESERVES**

**(a) The Group**

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Investments reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000, as previously reported	5,397	347	20,964	—	139,838	(31,822)	199,892	334,616
Effect of adopting SSAP 9 (revised) (Note 1 (p))	—	—	—	—	—	—	206,214	206,214
At 1 January 2000, as restated	5,397	347	20,964	—	139,838	(31,822)	406,106	540,830
1999 final and special dividends paid	—	—	—	—	—	—	(209,142)	(209,142)
2000 interim dividend paid	—	—	—	—	—	—	(13,454)	(13,454)
Exchange differences	—	—	—	—	—	1,071	—	1,071
Profit for the year	—	—	—	—	—	—	114,046	114,046
Exercise of share options	6,462	—	—	—	—	—	—	6,462
Shares repurchased	(1,485)	235	—	—	—	—	(235)	(1,485)
Release upon disposal of investment securities and reclassification to other investments	—	—	—	—	(83,619)	—	83,619	—
Deficit on revaluation of other investments	—	—	—	—	(56,219)	—	56,219	—
Surplus on revaluation of investment property	—	—	—	1,718	—	—	—	1,718
At 31 December 2000	<u>10,374</u>	<u>582</u>	<u>20,964</u>	<u>1,718</u>	<u>—</u>	<u>(30,751)</u>	<u>437,159</u>	<u>440,046</u>
Representing:								
Reserves at 31 December 2000								429,955
2000 final dividend proposed								<u>10,091</u>
At 31 December 2000								<u>440,046</u>
Retained in (as restated):								
Company and subsidiaries	10,374	582	20,964	1,718	—	(30,767)	409,315	412,186
Associated companies	—	—	—	—	—	16	27,844	27,860
	<u>10,374</u>	<u>582</u>	<u>20,964</u>	<u>1,718</u>	<u>—</u>	<u>(30,751)</u>	<u>437,159</u>	<u>440,046</u>

In accordance with the revised SSAP 9, the Group recognised dividend income from associated companies in the year dividends were declared. This change in accounting policy has been applied retrospectively and reserves retained in “company and subsidiaries” and “associated companies” as at 31 December 2000 have decreased and increased respectively by HK\$12,250,000.

## Notes to the Accounts

31 December 2001

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001, as previously reported	10,374	582	20,964	1,718	(30,751)	427,068	429,955
Effect of adopting SSAP 9 (revised) (Note 1 (p))	—	—	—	—	—	10,091	10,091
At 1 January 2001, as restated	10,374	582	20,964	1,718	(30,751)	437,159	440,046
2000 final dividend paid	—	—	—	—	—	(10,091)	(10,091)
Exchange differences	—	—	—	—	509	—	509
Loss for the year	—	—	—	—	—	(86,799)	(86,799)
Release upon liquidation of subsidiaries	—	—	118	—	85	—	203
Issue of shares (Note 20(ii))	73,997	—	—	—	—	—	73,997
Shares issuing expenses (Note 20(ii))	(2,508)	—	—	—	—	—	(2,508)
Deficit on revaluation of investment properties (Note 12)	—	—	—	(1,718)	—	—	(1,718)
Transfer between reserves	—	—	—	—	30,157	(30,157)	—
<b>At 31 December 2001</b>	<b>81,863</b>	<b>582</b>	<b>21,082</b>	<b>—</b>	<b>—</b>	<b>310,112</b>	<b>413,639</b>
Retained in:							
Company and subsidiaries	81,863	582	21,082	—	—	290,672	394,199
Associated companies	—	—	—	—	—	19,440	19,440
	<b>81,863</b>	<b>582</b>	<b>21,082</b>	<b>—</b>	<b>—</b>	<b>310,112</b>	<b>413,639</b>

Included in the share premium was HK\$1,856,000 which arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993.



## Notes to the Accounts

31 December 2001

### 21. RESERVES (CONT'D)

#### (b) The Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000, as previously reported	3,541	347	5,448	165,090	174,426
Effect of adopting SSAP 9 (revised) (Note 1 (p))	—	—	166,302	39,912	206,214
At 1 January 2000, as restated	3,541	347	171,750	205,002	380,640
1999 final and special dividends paid	—	—	(166,302)	(42,840)	(209,142)
2000 interim dividend paid	—	—	(5,448)	(8,006)	(13,454)
Profit for the year	—	—	—	9,891	9,891
Exercise of share options	6,462	—	—	—	6,462
Shares repurchased	(1,485)	235	—	(235)	(1,485)
As 31 December 2000	<u>8,518</u>	<u>582</u>	<u>—</u>	<u>163,812</u>	<u>172,912</u>
Representing:					
Reserves at 31 December 2000					162,821
2000 final dividend proposed					<u>10,091</u>
At 31 December 2000					<u>172,912</u>
At 1 January 2001, as previously reported	8,518	582	—	434,721	443,821
Effect of adopting SSAP 9 (revised) (Note 1 (p))	—	—	—	10,091	10,091
Effect of adopting SSAP 9 (revised) in respect of recognising 2000 final dividend proposed by a subsidiary	—	—	—	(281,000)	(281,000)
At 1 January 2001, as restated	8,518	582	—	163,812	172,912
2000 final dividend paid	—	—	—	(10,091)	(10,091)
Profit for the year	—	—	—	299,171	299,171
Issue of shares (Note 20(ii))	73,997	—	—	—	73,997
Shares issuing expenses (Note 20(ii))	(2,508)	—	—	—	(2,508)
At 31 December 2001	<u>80,007</u>	<u>582</u>	<u>—</u>	<u>452,892</u>	<u>533,481</u>

## Notes to the Accounts

31 December 2001

The reserves of the Company available for dividend or distribution comprised the following:

	2001	As restated 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital redemption reserve	582	582
Retained profits	<u>452,892</u>	<u>163,812</u>
	<u>453,474</u>	<u>164,394</u>

### 22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

	2001	As restated 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before taxation	(91,957)	118,482
Interest income	(7,851)	(25,401)
Interest on bank loans and overdrafts	15,995	11,186
Dividends received from other investments	(198)	(1,060)
Depreciation	35,593	12,872
Deficit on investment properties revaluation	1,558	—
Loss on disposal of fixed assets	59	1,635
Loss on liquidation of subsidiaries	203	—
Net gain on investment in securities	(12,290)	(121,497)
Share of profits less losses of associated companies	(3,511)	(21,293)
Decrease/(increase) in inventories	4,607	(13,542)
Decrease in trade receivables, other receivables, deposits and prepayments	133,534	302,121
Decrease in trade payables, other payables and accrued charges	<u>(47,418)</u>	<u>(4,091)</u>
Net cash inflow from operating activities	<u>28,324</u>	<u>259,412</u>

## Notes to the Accounts

31 December 2001

### 22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

#### (b) Analysis of changes in financing during the year

	Bank loans with maturity longer than three months		Share capital including premium	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	—	—	77,644	71,504
Acquisition of a subsidiary (Note 23)	238,000	—	—	—
Net cash inflow/(outflow) from financing activities	<u>(60,043)</u>	<u>—</u>	<u>105,125</u>	<u>6,140</u>
At 31 December	<u><u>177,957</u></u>	<u><u>—</u></u>	<u><u>182,769</u></u>	<u><u>77,644</u></u>

#### (c) Analysis of cash and cash equivalents

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash and bank balances	230,233	376,051
Bank loans	<span style="border: 1px solid black; padding: 2px;">(287,281)</span>	<span style="border: 1px solid black; padding: 2px;">(84,096)</span>
Non-cash equivalents	<span style="border: 1px solid black; padding: 2px;">177,957</span>	<span style="border: 1px solid black; padding: 2px;">—</span>
	<u>(109,324)</u>	<u>(84,096)</u>
Cash and cash equivalents	<u><u>120,909</u></u>	<u><u>291,955</u></u>

## Notes to the Accounts

31 December 2001

### 23. ACQUISITION

On 16 January 2001 the Group acquired the entire share capital and shareholder's loan of Belmont Limited ("Belmont") (formerly known as Pretty Star Limited) which is engaged in property investment and is incorporated in Hong Kong (the "Acquisition"). The total consideration for the Acquisition was approximately HK\$257 million and was satisfied by cash.

The assets and liabilities arising from the acquisition are as follows:

	<i>HK\$'000</i>
Property (Note 12)	498,000
Bank loan (Note 22(b))	(238,000)
Other liabilities less assets	(3,140)
Shareholder's loan	<u>(203,602)</u>
Fair value of net assets acquired	53,258
Shareholder's loan acquired	<u>203,602</u>
Total consideration	<u><u>256,860</u></u>

Analysis of the net cash outflow in respect of the purchase of Belmont:

Cash consideration	256,860
Less: Deposit for purchase of a subsidiary paid in prior year	<u>(25,300)</u>
Net cash outflow	<u><u>231,560</u></u>

During the year, Belmont contributed HK\$24 million to the Group's net operating cash flows, paid HK\$11 million in respect of the net returns on investments and servicing of finance and utilised HK\$83 million for financing.

### 24. CONTINGENT LIABILITIES

- (a) The Company has executed guarantees amounting to approximately HK\$461 million (2000: HK\$517 million) with respect to banking facilities made available to subsidiaries. As at 31 December 2001, the borrowings outstanding against the facilities amounted to HK\$264 million (2000: HK\$84 million).
- (b) The Internal Revenue Service of the United States of America ("IRS") is examining the income tax returns of the US subsidiaries for the tax years 1995, 1996 and 1997. Such examination includes review of transfer pricing methodology and timing of certain deductions, and is currently ongoing. The subsidiaries have been advised by their legal counsel that the positions taken by them in respect of the matters under IRS review are based upon substantial authority, and that the examination is unlikely to result in a material adverse effect on the financial position of the Group.
- (c) The Group has discounted bills of HK\$3,706,000 as at 31 December 2001 (2000: Nil).

## Notes to the Accounts

31 December 2001

### 25. COMMITMENTS

As at 31 December 2001, the Group had the following commitments:

#### (a) Capital commitments

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Contracted but not provided for in respect of		
– purchase of a subsidiary	—	231,560
– purchase of investment properties	—	14,184
	<u>—</u>	<u>245,744</u>

#### (b) Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitment by the Group to the licensors to be fulfilled during the terms of the contracts. The amount of financial commitment contracted but not provided for at the end of the year were payable as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	7,457	4,776
In the second to fifth year inclusive	18,330	3,313
After the fifth year	—	447
	<u>25,787</u>	<u>8,536</u>

## Notes to the Accounts

31 December 2001

### 26. OPERATING LEASE ARRANGEMENTS

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

#### (a) Lessee

At 31 December 2001, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Within one year	11,004	14,832
In the second to fifth year inclusive	25,458	32,393
After the fifth year	<u>3,545</u>	<u>6,159</u>
	<u><u>40,007</u></u>	<u><u>53,384</u></u>

The Group has a non-cancellable sublease with future minimum sublease receipts of HK\$12,180,000 (2000: HK\$6,922,000).

#### (b) Lessor

At 31 December 2001, the future aggregate minimum lease payments under non-cancellable operating leases for office and residential premises receivable by the Group were as follows:

	2001 <i>HK\$'000</i>	As restated 2000 <i>HK\$'000</i>
Within one year	24,704	1,020
In the second to fifth year inclusive	<u>13,817</u>	<u>553</u>
	<u><u>38,521</u></u>	<u><u>1,573</u></u>



## Notes to the Accounts

*31 December 2001*

### **27. US DOLLAR EQUIVALENTS**

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1.00 ruling at 31 December 2001.

### **28. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with current year's presentation.

### **29. APPROVAL OF ACCOUNTS**

The accounts were approved by the Board of Directors on 21 March 2002.