

# Notes to the Accounts

## 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 the Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investments in securities are stated at fair value.

**(b) Group accounting**

**(i) Basis of consolidation**

The consolidated accounts as of 31 December 2001 include the accounts of the Company and its subsidiaries made up to 31 December 2001.

Pursuant to a Management Services Agreement dated 28 April 2000 (“MSA”) (see note 35(e)), the Company’s control over the assets and operations of the subsidiaries holding the businesses of manufacturing and trading of toys and accessories and property development (the “toys and property subsidiaries”) was significantly restricted. Consequently, the Company ceased consolidating the toys and property subsidiaries from 4 May 2000, the date on which the restrictions came into force. In the consolidated accounts as of 31 December 2000, the results of the toys and property subsidiaries were consolidated up to 3 May 2000. The results of these subsidiaries for the period from 4 May 2000 to 31 December 2000 and the net assets at 31 December 2000 were excluded from consolidation.

In the consolidated accounts as of 31 December 2001, the results of the toys and property subsidiaries for the period from 1 January 2001 to 31 December 2001 were excluded from consolidation until the Company resumed control over the assets and operations of these subsidiaries with effect from 31 December 2001, being the date of cancellation of the MSA (see note 35(e)). The Group’s consolidated accounts as of 31 December 2001 include the results and the net assets of these subsidiaries with effect from 31 December 2001.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Group accounting (continued)

##### (ii) *Subsidiaries*

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The definition of a subsidiary does not apply to the toys and property subsidiaries and MegaVillage.com Holdings Limited (“MegaVillage”) during the period when the Company’s control over these subsidiaries was significantly restricted.

The significant restrictions on the Company’s control over the toys and property subsidiaries are described in note 35(e).

Prior to 29 June 2001, the Company had an equity interest of 52.95% in MegaVillage. The Company considered that it had only significant influence, not control, over the management of MegaVillage as a result of certain contractual restrictions on its ability to appoint the majority of board of directors in MegaVillage. Accordingly, MegaVillage was accounted for as an associate in accordance with note 1 (b)(iii).

##### (iii) *Associates*

An associate is a company, not being a subsidiary, in which an equity interest of not less than 20% is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of associates for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition except for the toys and property subsidiaries.

The Group does not apply equity method to account for the toys and property subsidiaries as there has been long-term restrictions to transfer funds from these subsidiaries to the Company under the MSA.

In the Company’s balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Group accounting (continued)

##### (iv) *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 are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

The accounts of the subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date for the balance sheet items whilst the profit and loss items are translated at an average rate for the year. The resulting exchange differences are dealt with as a movement in reserves. Upon disposal of these subsidiaries and associates, the related accumulated exchange differences are included in the profit and loss account as part of the gain or loss on disposal.

#### (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.

Investment properties held on leases with unexpired periods of greater than 20 years are valued by independent valuers at each balance sheet date. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. 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 the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

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

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.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (c) Fixed assets (continued)

##### (ii) Other fixed assets

Other fixed assets, comprising properties other than investment properties, leasehold improvements, plant and machinery and furniture and fixtures, are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses, on a straight-line basis over, their estimated useful lives as follows:

Leasehold land and buildings	Over the unexpired term of leases
Leasehold improvements	3 to 10 years or over the term of the relevant leases, whichever is shorter
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	5 years

##### (iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (d) Intangibles

##### ***Goodwill/negative goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill/negative goodwill on acquisitions that occurred prior to 1 January 2001 was written off against/taken to reserves. The Group has taken advantage of the transitional provision in SSAP No. 30 "Business Combinations" and goodwill/negative goodwill previously written off against/taken to reserves has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill/negative goodwill relating to the entity disposed of or, for goodwill/negative goodwill arising on acquisitions prior to 1 January 2001, the related goodwill/negative goodwill written off against/taken to reserves to the extent it has not previously been realised in the profit and loss account.

#### (e) Investments in securities

##### ***Held-to-maturity securities***

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account.

The carrying amounts of individual held-to-maturity securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be fully recoverable and are recognised in the profit and loss account as an expense immediately.

##### ***Non-trading securities***

Securities which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Investments in securities (continued)

##### *Trading securities*

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities 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

##### (i) *Toys manufacturing*

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

##### (ii) *Property development*

Properties held for sale are stated at the lower of cost and net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

#### (g) Treasury shares

Treasury shares represent the Company's equity shares held by the Company itself, by its consolidated subsidiaries or by its associates. The acquisition costs of treasury shares are shown as a reduction of shareholders' equity in the consolidated balance sheet.

#### (h) Accounts receivable

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

#### (i) 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, deposits held at call with banks and bank overdrafts.

#### (j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (k) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

#### (l) **Deferred taxation**

Deferred taxation is accounted for at the current taxation 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.

#### (m) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (n) **Operating lease charges**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (o) **Revenue recognition**

##### (i) **Sale of goods**

Revenue is recognised when goods are delivered to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

##### (ii) **Rental income from operating leases**

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the year in which they are earned.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (o) Revenue recognition (continued)

##### (iii) Service income

Service income is recognised when the relevant services are rendered.

##### (iv) Dividends

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

##### (v) Interest income

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

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in notes 15(b) and 39(a) to the accounts.

Turnover represents sales value of goods supplied to customers, rental income and service income. The amount of each category of revenue recognised in turnover during the year is as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of computer hardware and software	70,398	–
Sales of toys and accessories	–	321,239
Gross rentals from investment properties	–	9,327
Service income	–	79
	<b>70,398</b>	<b>330,645</b>
Other revenues		
Interest income	50,835	66,714
Dividend income from listed securities	–	42
Others	–	1,993
	<b>50,835</b>	<b>68,749</b>
Total revenues	<b>121,233</b>	<b>399,394</b>



# Notes to the Accounts

## (Continued)

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

The Group is organised into two business segments namely Internet business-to-business investments and toys and property operations. Unallocated represents head office administration mainly comprising other income and expenses, held-to-maturity securities, non-trading securities and cash held for non-operating purpose not allocated to the above two segments. As discussed more fully in note (1)(b)(i), the consolidated results for the year ended 31 December 2001 (2000: 4 May 2000 to 31 December 2000) exclude the operations of the toys and property subsidiaries. The net assets of these subsidiaries are included in the consolidated accounts with effect from 31 December 2001. An analysis by principal business and geographical location of the operations of the Company and its subsidiaries is as follows:

#### Primary segment information by business:

	Internet business-to-business investments		Toys and property operations		Unallocated		Group	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	70,398	79	-	330,566	-	-	70,398	330,645
Segment results	(226,100)	(8,896)	-	(19,629)	(51,140)	5,286	(277,240)	(23,239)
Share of losses less profits of associates	(14,691)	(7,852)	-	645	-	-	(14,691)	(7,207)
Finance costs							(100)	(322)
Write-back of provision against/ (provision against) the toys and property subsidiaries							967,620	(1,018,148)
Profit/(loss) before taxation							675,589	(1,048,916)
Taxation (charge)/credit							(211)	10,382
Profit/(loss) after taxation							675,378	(1,038,534)
Minority interests							5,224	1,374
Profit/(loss) attributable to shareholders							680,602	(1,037,160)
Segment assets	62,498	137,581	1,776,322	-	1,140,510	1,274,531	2,979,330	1,412,112
Investments in associates	-	63,664	46,790	-	-	-	46,790	63,664
Interests in the toys and property subsidiaries	-	-	-	225,413	-	-	-	225,413
Total assets							3,026,120	1,701,189
Segment liabilities	12,254	3,509	398,341	-	18,784	13,363	429,379	16,872
Loans from minority shareholders	-	-	78,402	-	-	-	78,402	-
Taxation	2	343	34,723	-	-	-	34,725	343
Total liabilities							542,506	17,215
Capital expenditure	28,059	43,490	-	13,345	-	-	28,059	56,835
Depreciation	3,528	2,038	-	15,895	4,852	-	8,380	17,933
Amortisation charge	27,939	9,536	-	-	-	-	27,939	9,536
Impairment provision for non-trading securities	84,758	-	-	-	-	-	84,758	-
Loss on disposal of an associate	49,413	-	-	-	-	-	49,413	-

# Notes to the Accounts

## (Continued)

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary segment information by geographical location:

	Turnover		Segment results		Segment assets		Capital expenditure	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
United States	-	187,911	(63,068)	(14,439)	81,821	43,568	-	-
Singapore	70,398	-	(50,578)	(8,896)	50,356	94,013	28,059	56,835
Mainland China	-	-	-	-	1,315,915	-	-	-
Hong Kong	-	-	(56,794)	-	368,283	-	-	-
Rest of Asia	-	106,028	(55,660)	(2,645)	22,445	-	-	-
Europe	-	36,706	-	(2,545)	-	-	-	-
	<b>70,398</b>	<b>330,645</b>	<b>(226,100)</b>	<b>(28,525)</b>	<b>1,838,820</b>	<b>137,581</b>	<b>28,059</b>	<b>56,835</b>
Other income and corporate expenses			(51,140)	5,286				
Operating loss			(277,240)	(23,239)				
Interests in the toys and property subsidiaries					-	225,413		
Investments in associates					46,790	63,664		
Unallocated assets					1,140,510	1,274,531		
Total assets					<b>3,026,120</b>	<b>1,701,189</b>		

# Notes to the Accounts

## (Continued)

### 3 OPERATING LOSS

	2001	2000
	HK\$'000	HK\$'000
Operating loss is stated after crediting and charging the following:		
Crediting		
Net realised and unrealised gains on trading securities	-	10,234
Gross rental receivable from investment properties less outgoings of nil for 2001 (2000: HK\$1,960,000)	-	7,367
Charging		
Cost of inventories sold	58,106	297,295
Staff costs (including directors' emoluments)	96,288	104,989
Amortisation of goodwill and intangible assets	27,939	9,536
Auditors' remuneration	743	1,657
Depreciation	8,380	17,933
Operating lease charges in respect of properties	12,242	16,220
Loss on disposal of fixed assets	9,006	282
Net exchange loss	1,806	2,812

### 4 FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	100	322

### 5 WRITE-BACK OF PROVISION AGAINST/(PROVISION AGAINST) THE TOYS AND PROPERTY SUBSIDIARIES

In the preparation of the Group accounts for the year ended 31 December 2000, the Company had determined to hold the toys and property subsidiaries for disposal. In view of this determination and the significant restrictions on the Company's control over these subsidiaries, a provision of HK\$1,018,148,000 was made by the Group against the share of the net assets of the toys and property subsidiaries to reflect the fair value of the Group's interests in these subsidiaries as at 31 December 2000.

In the preparation of the Group accounts for the year ended 31 December 2001, the accounts of the toys and property subsidiaries were consolidated with effect from 31 December 2001, the date the Company resumed control over these subsidiaries pursuant to the cancellation of the MSA and the Put Option Deed (see note 35(e)). As stated in note 1(b)(i) to the accounts, the toys and property subsidiaries have now been consolidated and the provision previously made is no longer required. In addition, the results of these subsidiaries (note 14(a)) are included as part of the write-back.

# Notes to the Accounts

## (Continued)

### 6 TAXATION (CHARGE)/CREDIT

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2001 HK\$'000	2000 HK\$'000
The amount of taxation charged to the consolidated profit and loss account represents:		
Hong Kong profits tax	–	(326)
Overseas taxation	(211)	–
Over provision in prior years	–	10,892
	(211)	10,566
Share of taxation attributable to associates	–	(184)
	(211)	10,382

Deferred tax (credit)/charge for the year has not been provided in respect of the following:

	2001 HK\$'000	2000 HK\$'000
Unutilised tax losses	(12,238)	(12,475)
Accelerated depreciation allowances	(2,003)	2,003
	(14,241)	(10,472)

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

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$95,676,000 (2000: loss of HK\$434,442,000).

### 8 DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Final dividend proposed – HK1.5 cents per share (2000: Nil)	84,150	–

At a meeting held on 19 March 2002 the directors declared a final dividend of HK1.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts and will be reflected as an appropriation of contributed surplus of the Company for the year ending 31 December 2002.

# Notes to the Accounts

## (Continued)

### 9 BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$680,602,000 (2000: loss of HK\$1,037,160,000) and the weighted average number of 5,595,125,000 ordinary shares (2000: 4,246,536,000) in issue during the year.

No diluted earnings/(loss) per share for 2001 and 2000 have been presented as the exercise of the Company's outstanding warrants would be anti-dilutive.

### 10 RETIREMENT BENEFITS SCHEMES

The Company has a defined contribution scheme for all qualified employees, which has been set up under the guidelines of Mandatory Provident Fund ("MPF"). Pursuant to the rules of the scheme, the employer and its employees are required to make contributions to the scheme calculated at 10% and 5% of the employees' basic salaries and bonuses (with maximum limits set by the rules of the scheme), respectively, on a monthly basis. The employees are entitled to 100% of the employer's voluntary contribution (the portion above the mandatory contribution) after five years' service, or at an increasing scale of between 10% to 80% after completion of one to four years' service. In accordance with the rules of the scheme, forfeited employer's contributions arising from members terminating employment before becoming fully vested are used to reduce the future contributions of the employer.

The toys and property subsidiaries have the following two defined contribution schemes for all qualified employees.

- (i) Hong Kong employees who commenced employment before 1 September 2000 and qualified employees from operations outside Hong Kong are members of the first defined contribution scheme. The assets of the defined contribution scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, the employer and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and accrued interest after 10 years' service, or at an increasing scale of between 20% to 90% after completion of 2 to 9 years' service.

When there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employer's contributions arising from members terminating employment before becoming fully vested are allocated to the benefit of the remaining members instead of being used to reduce the future contributions of the employer.

- (ii) All qualified Hong Kong employees who commenced employment on or after 1 September 2000 are members of the second defined contribution scheme which has been set up in accordance with the guidelines of MPF. Both the employers and employees contribute 5% of salary (limited to HK\$1,000) to the scheme each month. There is no voluntary contribution from the toys and property subsidiaries nor the employees.

The Group's other subsidiaries in Singapore are required to contribute in accordance with the Central Provident Fund.

The retirement benefit costs charged to the profit and loss account amounted to HK\$1,977,000 (2000: HK\$1,681,000) and represent contributions payable by the Group to these schemes.

# Notes to the Accounts

## (Continued)

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) **Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year included a sum of HK\$15,368,000 which has been dealt with in the consolidated profit and loss account for the year ended 31 December 2001 and a sum of HK\$6,710,000 payable to certain directors of the Company by the toys and property subsidiaries but not included in the consolidated profit and loss account. The aggregate amount of HK\$22,078,000 is analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	740	228
Salaries and other emoluments	6,323	5,109
Performance related incentive payments	3,618	460
Retirement scheme contributions	147	138
Compensation for loss of office as director, paid by the Company	11,250	–
	<b>22,078</b>	5,935

Included in the directors' emoluments were fees of HK\$592,000 (2000: HK\$114,000) paid to the independent non-executive directors during the year.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2001	2000
Nil – HK\$1,000,000	14	10
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	2	–
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$11,500,001 – HK\$12,000,000	1	–

# Notes to the Accounts

## (Continued)

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include one (2000: one) director whose emolument is reflected in the analysis presented in note 11(a). The emoluments payable to the remaining four (2000: four) individuals during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other emoluments	6,132	9,256
Performance related incentive payments	2,592	7,004
Retirement scheme contributions	84	–
Compensation for loss of office – contractual payments	11,365	–
	<b>20,173</b>	16,260

The emoluments of the four (2000: four) individuals with the highest emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2001	2000
HK\$3,000,001 – HK\$3,500,000	–	2
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$4,000,001 – HK\$4,500,000	1	1
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$6,000,001 – HK\$6,500,000	1	–

# Notes to the Accounts

## (Continued)

### 12 FIXED ASSETS

Group	Investment	Other	Leasehold	Plant and	Furniture,	Motor	Total
	properties	properties	improve-	machinery	fixtures and	vehicles	
	HK\$'000	HK\$'000	ments	HK\$'000	equipment	HK\$'000	
Cost or valuation							
At 1 January 2001	-	-	8,890	-	10,510	-	19,400
Exchange differences	-	-	(18)	-	(93)	-	(111)
Additions	-	-	861	-	4,503	180	5,544
Disposals	-	-	(6,729)	-	(11,238)	(8)	(17,975)
Acquisition of subsidiaries	-	-	562	-	2,840	257	3,659
Disposal of subsidiaries	-	-	(2,222)	-	(3,034)	-	(5,256)
Inclusion of the toys and property subsidiaries on consolidation	599,330	354,083	108,975	277,088	55,910	13,116	1,408,502
At 31 December 2001	599,330	354,083	110,319	277,088	59,398	13,545	1,413,763
Accumulated depreciation							
At 1 January 2001	-	-	1,019	-	1,126	-	2,145
Exchange differences	-	-	(5)	-	(30)	-	(35)
Charge for the year	-	-	4,333	-	3,971	76	8,380
Disposals	-	-	(3,464)	-	(4,377)	(6)	(7,847)
Acquisition of subsidiaries	-	-	179	-	998	105	1,282
Disposal of subsidiaries	-	-	(1,521)	-	(139)	-	(1,660)
Inclusion of the toys and property subsidiaries on consolidation	-	93,091	80,543	168,383	38,105	10,810	390,932
Impairment losses on fixed assets of the toys and property subsidiaries	-	61,694	-	-	-	-	61,694
At 31 December 2001	-	154,785	81,084	168,383	39,654	10,985	454,891
Net book value							
At 31 December 2001	599,330	199,298	29,235	108,705	19,744	2,560	958,872
At 31 December 2000	-	-	7,871	-	9,384	-	17,255



# Notes to the Accounts

## (Continued)

### 12 FIXED ASSETS (continued)

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

#### Group

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	–	354,083	110,319	277,088	59,398	13,545	814,433
At valuation	599,330	–	–	–	–	–	599,330
	599,330	354,083	110,319	277,088	59,398	13,545	1,413,763

The analysis of the cost or valuation at 31 December 2000 of the above assets is as follows:

At cost	–	–	8,890	–	10,510	–	19,400
---------	---	---	-------	---	--------	---	--------

(a) The Group's interests in investment properties and other properties at their net book value are analysed as follows:

	2001		2000	
	Investment properties HK\$'000	Other properties HK\$'000	Investment properties HK\$'000	Other properties HK\$'000
Leases of between 10 to 50 years				
Hong Kong	6,430	59,155	–	–
Outside Hong Kong	592,900	140,143	–	–
	599,330	199,298	–	–

(b) The investment properties were revalued at 31 December 2001 on the open market value basis by independent professional valuers, DTZ Debenham Tie Leung Limited.

(c) At 31 December 2001, certain investment properties and other properties with a total net book value of approximately HK\$50,417,000 were pledged to banks to secure banking facilities granted to the Group.

# Notes to the Accounts

## (Continued)

### 12 FIXED ASSETS (continued)

Company	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1 January 2001	6,729	9,184	15,913
Additions	–	16	16
Disposals	(6,729)	(9,200)	(15,929)
At 31 December 2001	–	–	–
<b>Accumulated depreciation</b>			
At 1 January 2001	1,019	977	1,996
Charge for the year	2,445	2,407	4,852
Disposals	(3,464)	(3,384)	(6,848)
At 31 December 2001	–	–	–
<b>Net book value</b>			
At 31 December 2001	–	–	–
At 31 December 2000	5,710	8,207	13,917

# Notes to the Accounts

(Continued)

## 13 INTANGIBLE ASSETS

### Group

	Goodwill arising on consolidation HK\$'000	Intellectual property rights HK\$'000	Total HK\$'000
At 1 January 2000	–	–	–
Additions	4,735	19,375	24,110
Amortisation	(133)	(1,076)	(1,209)
At 31 December 2000	4,602	18,299	22,901
Goodwill arising on acquisition of subsidiaries during the year	20,138	–	20,138
Amortisation during the year	(9,640)	(18,299)	(27,939)
At 31 December 2001	15,100	–	15,100

## 14 INTERESTS IN THE TOYS AND PROPERTY SUBSIDIARIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares	–	–	<b>659,090</b>	659,090
Share of net assets other than goodwill	–	1,292,666	–	–
Elimination of reserves	–	(49,105)	–	–
	–	1,243,561	<b>659,090</b>	659,090
Less: provision (see note (5))	–	(1,018,148)	–	(433,677)
	–	225,413	<b>659,090</b>	225,413

# Notes to the Accounts

## (Continued)

### 14 INTERESTS IN THE TOYS AND PROPERTY SUBSIDIARIES (continued)

- (a) The results attributable to shareholders of the toys and property subsidiaries during the period of exclusion from consolidation are as follows:

	1 January 2001 to 31 December 2001 HK\$'000	4 May 2000 to 31 December 2000 HK\$'000
Profit/(loss) before provision for impairment losses on fixed assets	31,004	(29,532)
Less : provision for impairment losses on fixed assets	(52,000)	–
	<b>(20,996)</b>	(29,532)

The net assets of the toys and property subsidiaries as at 31 December 2000 which had not been included in the consolidated balance sheet were HK\$1,273,836,000.

- (b) The Company's carrying value of the unlisted shares of the toys and property subsidiaries as of 31 December 2001 included the following:
- (i) the book value of their net assets attributable to the Group as at the date on which the Company became their holding company under the Group reorganisation in 1991; and
  - (ii) amounts totalling HK\$572,556,000 due from these subsidiaries as at 4 May 2000 (the date on which the MSA became effective (see note 35(e)) which were waived by the Company and capitalised as part of the carrying value of the unlisted shares of the toys and property subsidiaries.
- (c) The provision of HK\$433,677,000 made by the Company in prior year to reflect the fair value of the Company's interests in these subsidiaries was written back to the Company's profit and loss account for the year ended 31 December 2001 as a result of the cancellation of the MSA (see note 35(e)).
- (d) Particulars of the principal toys and property subsidiaries as at 31 December 2001 are set out in note 39(a).

# Notes to the Accounts

(Continued)

## 15 INVESTMENTS IN OTHER SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	56,207	78,046
Amounts due from subsidiaries	381,890	934
Amounts due to subsidiaries	–	(23)
Less: provision for amounts due from subsidiaries	(62,459)	–
	<b>375,638</b>	<b>78,957</b>

- (a) The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.
- (b) Particulars of the Company's other principal subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of operations/ incorporation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Directly held	Indirectly held	
Hutchison Harbour Ring Holdings Limited (formerly known as ICG Asia Holdings Limited)	Cayman Islands	1 ordinary share of US\$1	100%	100%	–	Portfolio investment (Note)
Whizz-Work Holdings Limited (acquired on 23 March 2001)	Singapore/ British Virgin Islands	2,461,540 ordinary shares of US\$0.01 each	75%	75%	–	Investment holding
Whizz-Work Pte Limited (acquired on 23 March 2001)	Singapore	1,000,000 ordinary shares of S\$1 each	75%	–	75%	Provision of network infrastructure services and hardware reselling

Note: The activity of portfolio investment is international and not attributable to a principal place of operation.

# Notes to the Accounts

## (Continued)

### 16 INVESTMENTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	-	-	-	116,607
Share of net assets	<b>86,410</b>	18,693	-	-
Goodwill less amortisation	-	44,971	-	-
	<b>86,410</b>	63,664	-	116,607
Amounts due from associates	<b>1,147</b>	-	-	-
Amounts due to associates	<b>(40,767)</b>	-	-	-
	<b>46,790</b>	63,664	-	116,607

- (a) As at 31 December 2001, the Group's entire interest in associates was directly held by the toys and property subsidiaries. Particulars of these principal associates are set out in note 39(b).

During the year, the Company sold an interest of 33.05% in MegaVillage following a repurchase of shares by MegaVillage. Upon completion of the transaction on 29 June 2001, the remaining 19.9% interest in MegaVillage has been classified as non-trading securities (see note 18) at a carrying value of HK\$7,756,000. As at the balance sheet date, an impairment provision was made against the Group's carrying value in MegaVillage.

- (b) The amounts due from/to associates are unsecured, interest free and have no fixed terms of repayment.

# Notes to the Accounts

(Continued)

## 17 HELD-TO-MATURITY SECURITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Listed, overseas				
Held-to-maturity securities, at cost	317,525	–	–	–
Less: amortisation	(430)	–	–	–
	317,095	–	–	–

As at 31 December 2001, the market value of held-to-maturity securities was approximately HK\$315,190,000.

## 18 NON-TRADING SECURITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted, overseas				
Equity securities	65,258	43,568	95,562	43,568
Convertible notes	19,500	–	19,500	–
Less: impairment provision	(84,758)	–	(115,062)	–
	–	43,568	–	43,568

The Group's investments in unlisted non-trading securities are mainly in entities engaged in Internet business-to-business investment activities. The directors have reviewed the carrying value of these investments and considered it appropriate to make an impairment provision against these investments.

# Notes to the Accounts

## (Continued)

### 19 LOANS RECEIVABLE

	2001 HK\$'000	Group 2000 HK\$'000
Gross loans receivable	23,889	–
Less: amount due within one year	(5,743)	–
	<b>18,146</b>	–

Included in the gross loans receivable is a balance of HK\$20,774,000 representing the net amount of unsecured loans advanced by the Group to a third party (the "Third Party") to finance the construction, by the Third Party, of factory buildings in the People's Republic of China. The Third Party leased the factory buildings back to the Group and used the rent derived thereon to repay the principal and the interest. The loans bear interest at a range of Hong Kong dollar prime rate to 2% above Hong Kong dollar prime rate.

The remaining balance of HK\$3,115,000 represents amount advanced to a related company of the minority shareholder of Zhongshan International Toys Limited, a subsidiary of the Group. The loan is unsecured, bearing interest at the rate of 2% above the higher of Hong Kong dollar prime rate or Hong Kong inter-bank offer rate. The entire amount is due for repayment in 2002.

### 20 INVENTORIES

	2001 HK\$'000	Group 2000 HK\$'000
Raw materials	104,233	–
Work in progress	35,630	–
Finished goods	36,091	–
	<b>175,954</b>	–

As at 31 December 2001, raw materials of HK\$3,160,000, work in progress of HK\$93,000 and finished goods of HK\$94,000 are carried at net realisable value.



# Notes to the Accounts

## (Continued)

### 21 PROPERTIES HELD FOR SALE

The Group's properties held for sale are held under medium term leases and are situated in the People's Republic of China. As at 31 December 2001, all of the Group's properties held for sale are carried at net realisable value.

### 22 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables, net of provision	191,601	–	–	–
Deposits, prepayments and other receivables	106,547	17,417	4,356	15,249
Amounts due from fellow subsidiaries	–	607	–	607
At 31 December	298,148	18,024	4,356	15,856

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. As at 31 December 2001, the ageing analysis of trade receivables based on the date of invoice is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
0-30 days	129,644	–	–	–
31-60 days	31,754	–	–	–
61-90 days	8,285	–	–	–
Over 90 days	21,918	–	–	–
	191,601	–	–	–

# Notes to the Accounts

## (Continued)

### 23 TRADING SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Equity securities, listed		
– Hong Kong	1,736	–
– Overseas	125	–
	<b>1,861</b>	–
Market value of listed securities	<b>1,861</b>	–

### 24 TRADE AND OTHER PAYABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables	144,184	–	–	–
Other creditors and accruals	285,195	12,990	18,784	9,481
Amount due to ultimate holding company	–	3,882	–	3,882
	<b>429,379</b>	16,872	<b>18,784</b>	13,363

At 31 December 2001, the ageing analysis of trade payables is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
0-30 days	65,735	–	–	–
31-60 days	23,126	–	–	–
61-90 days	3,494	–	–	–
Over 90 days	51,829	–	–	–
	<b>144,184</b>	–	–	–

# Notes to the Accounts

## (Continued)

### 25 DEFERRED TAXATION

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1 January	-	4,447
Exclusion of the toys and property subsidiaries from consolidation	-	(4,447)
Inclusion of the toys and property subsidiaries on consolidation – accelerated depreciation allowances	655	-
At 31 December	655	-

The potential deferred tax (assets)/liabilities of the Group not provided for is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Unutilised tax losses	(24,713)	(12,475)
Unutilised tax losses – inclusion of the toys and property subsidiaries on consolidation	(20,703)	-
Accelerated depreciation allowances	-	2,003
	(45,416)	(10,472)

### 26 LOANS FROM MINORITY SHAREHOLDERS

Loans from minority shareholders are unsecured, non-interest bearing and have no fixed terms of repayments.

# Notes to the Accounts

## (Continued)

### 27 SHARE CAPITAL

	2001		2000	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each				
At 1 January and 31 December	<b>20,000,000,000</b>	<b>2,000,000</b>	20,000,000,000	2,000,000
Issued and fully paid:				
At 1 January	<b>5,550,500,000</b>	<b>555,050</b>	1,727,730,000	172,773
Issue of shares (note 27(a))	<b>59,500,000</b>	<b>5,950</b>	3,800,320,000	380,032
Shares issued under share option scheme (note 30)	–	–	22,450,000	2,245
At 31 December	<b>5,610,000,000</b>	<b>561,000</b>	5,550,500,000	555,050

Notes:

- (a) On 23 March 2001, 59,500,000 ordinary shares with a par value of HK\$0.1 each were issued at HK\$0.302 per share to Whizz-Work Holdings Limited ("Whizz-Work") as part of the consideration for subscription of ordinary shares in Whizz-Work which, after this issuance, became a 75% owned subsidiary of the Company. The excess amount of the issue price over the par value of the shares issued of HK\$12,020,000 was credited to the share premium account.
- (b) The Company has warrants outstanding entitling the holders to subscribe in cash at any time on or after 4 May 2000 and until 3 May 2003 for ordinary shares up to 1,095,000,000 shares in the Company at a price of HK\$0.39 per share. During the year, no warrants were exercised and the warrants remained outstanding as at 31 December 2001.

# Notes to the Accounts

## (Continued)

### 28 TREASURY SHARES

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1 January	30,622	–
Ordinary shares issued to MegaVillage	–	41,036
Ordinary shares issued to Whizz-Work (note a)	13,478	–
Disposal of treasury shares related to MegaVillage (note b)	(30,622)	(10,414)
At 31 December	13,478	30,622

Notes:

- (a) During the year, the Company issued 59,500,000 ordinary shares with a par value of HK\$0.1 each at a price of HK\$0.302 per share to Whizz-Work, as part of the consideration to acquire a 75% equity interest in Whizz-Work.

At 31 December 2001, Whizz-Work still held 59,500,000 ordinary shares in the Company. The consideration from issue of these shares, to the extent of the Group's equity interest, is accounted for as treasury shares and shown as a deduction from shareholders' equity in the consolidated balance sheet.

- (b) In 2000, the Company issued 52,542,000 ordinary shares of HK\$0.1 each at a price of HK\$1.475 per share to MegaVillage as part of the consideration to subscribe for shares in MegaVillage.

On 22 June 2001, MegaVillage underwent a restructuring to repurchase certain of its own shares from the Group. The restructuring was completed on 29 June 2001; and the Group's shareholding in MegaVillage was reduced from 52.95% to 19.9% and the investment in MegaVillage was re-classified as non-trading securities.

# Notes to the Accounts

## (Continued)

### 29 RESERVES

#### Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Legal reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Merger reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001	1,483,869	3,558	-	31	-	-	-	(345,688)	1,141,770
Issue of new shares	12,020	-	-	-	-	-	-	-	12,020
Exchange translation differences	-	-	-	(263)	-	-	-	-	(263)
Inclusion of the toys and property subsidiaries on consolidation	-	-	46,244	(20,905)	200	-	72	-	25,611
Realised loss on disposal of treasury shares	-	-	-	-	-	-	-	(22,426)	(22,426)
Profit for the year	-	-	-	-	-	-	-	680,602	680,602
At 31 December 2001	1,495,889	3,558	46,244	(21,137)	200	-	72	312,488	1,837,314
Retained by:									
Company and subsidiaries	1,495,889	3,558	46,244	(3,817)	200	-	72	277,859	1,820,005
Associates	-	-	-	(17,320)	-	-	-	34,629	17,309
	1,495,889	3,558	46,244	(21,137)	200	-	72	312,488	1,837,314

# Notes to the Accounts

## (Continued)

### 29 RESERVES (continued)

Group	Share premium	Capital	Capital	Exchange reserve	Legal reserve	Investment	Merger reserve	Retained	Total
		redemption reserve	reserve on consolidation			properties revaluation reserve		profits/losses (accumulated)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	657,768	3,558	45,976	(22,971)	200	23,527	72	697,614	1,405,744
Issue of new shares	814,202	-	-	-	-	-	-	-	814,202
Shares issued under share option scheme	11,899	-	-	-	-	-	-	-	11,899
Exchange translation differences	-	-	-	724	-	-	-	-	724
Share of exchange reserve of associates	-	-	-	298	-	-	-	-	298
Revaluation surplus	-	-	-	-	-	1,310	-	-	1,310
Exclusion of the toys and property subsidiaries from consolidation	-	-	(45,976)	21,980	(200)	(24,837)	(72)	-	(49,105)
Realised loss on disposal of treasury shares	-	-	-	-	-	-	-	(6,142)	(6,142)
Loss for the year	-	-	-	-	-	-	-	(1,037,160)	(1,037,160)
At 31 December 2000	1,483,869	3,558	-	31	-	-	-	(345,688)	1,141,770
Retained by:									
Company and subsidiaries	1,483,869	3,558	-	31	-	-	-	(329,509)	1,157,949
Associates	-	-	-	-	-	-	-	(16,179)	(16,179)
	1,483,869	3,558	-	31	-	-	-	(345,688)	1,141,770

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda (as amended).

The legal reserve of the Group represents 20% of the capital of a subsidiary, which was incorporated in Macau, set aside as required under Macau's regulations.

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

# Notes to the Accounts

## (Continued)

### 29 RESERVES (continued)

Company	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2001	1,483,869	3,558	85,606	(402,370)	1,170,663
Issue of new shares	12,020	–	–	–	12,020
Profit for the year	–	–	–	95,676	95,676
At 31 December 2001	1,495,889	3,558	85,606	(306,694)	1,278,359
At 1 January 2000	657,768	3,558	85,606	32,072	779,004
Issue of new shares	814,202	–	–	–	814,202
Shares issued under share option scheme	11,899	–	–	–	11,899
Loss for the year	–	–	–	(434,442)	(434,442)
At 31 December 2000	1,483,869	3,558	85,606	(402,370)	1,170,663

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.



# Notes to the Accounts

## (Continued)

### 30 SHARE OPTION SCHEME

Pursuant to a share option scheme ("the Scheme") of the Company adopted on 6 June 1991 (as amended in the special general meeting held on 8 November 2000), the board of directors of the Company may grant options to any full time employees and executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company.

The subscription price of the options shall be a price to be determined by the directors of the Company being not less than 80% of the average closing price of the ordinary shares of the Company for the five trading days immediately preceding the date of the grant of the options.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The share options granted by the Company to the full time employees and executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company are as follows:

	Number of share options	
	2001	2000
At 1 January	–	23,650,000
Options exercised with an exercise price of HK\$0.63 per share (note 27)	–	(22,450,000)
Options expired	–	(1,200,000)
At 31 December	–	–

There were no share options granted to the directors or employees in 2001 and the Scheme reached the end of its life on 6 June 2001.

# Notes to the Accounts

## (Continued)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash outflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Operating loss	(277,240)	(23,239)
Interest income	(50,835)	(66,714)
Dividend income from listed securities	–	(42)
Depreciation of fixed assets	8,380	17,933
Amortisation of goodwill and intangible assets	27,939	9,536
Impairment provision for non-trading securities	84,758	–
Loss on disposal of an associate	49,413	–
Premium amortised on held-to-maturity securities, listed	430	–
Rental expenses applied against loans receivable	–	2,493
Loss on disposal of fixed assets	9,006	282
Net realised and unrealised losses/(gains) on investments in securities	4,940	(10,234)
Increase in trade and other receivables	(8,141)	(24,000)
Decrease/(increase) in amounts due from fellow subsidiaries	607	(607)
Increase in properties held for sale	–	(635)
Decrease/(increase) in inventories	317	(16,750)
Increase/(decrease) in trade and other payables	4,372	(20,075)
(Decrease)/increase in amount due to ultimate holding company	(3,882)	3,882
Increase in pledged bank deposits	–	(18,150)
Exchange differences	(275)	(54)
Net cash outflow from operating activities	<b>(150,211)</b>	<b>(146,374)</b>

# Notes to the Accounts

## (Continued)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Purchase of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	2,377	343
Treasury shares	17,970	–
Inventories	987	–
Trade and other receivables	12,601	1,170
Trade and other payables	(7,428)	(632)
Taxation	–	(343)
Minority shareholders' interests	(12,069)	–
Cash and cash equivalents	23,040	187
	<b>37,478</b>	725
Goodwill arising on consolidation	20,138	4,735
	<b>57,616</b>	5,460
Satisfied by:		
Allotment of shares	17,970	–
Cash paid	39,646	5,460
	<b>57,616</b>	5,460

Analysis of net cash outflow in respect of purchase of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	(39,646)	(5,460)
Cash and cash equivalents acquired	23,040	187
Net cash outflow in respect of purchase of subsidiaries	<b>(16,606)</b>	(5,273)

Note:

The results of the subsidiaries acquired during the year and their net assets as at 31 December 2001 attributable to the Group were a loss of HK\$10,405,000 and HK\$45,802,000 respectively.

# Notes to the Accounts

## (Continued)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	3,596	–
Trade and other receivables	2,231	–
Trade and other payables	(4,536)	–
Taxation	(309)	–
Minority interests	(1,812)	–
Cash and cash equivalents	48,501	–
	<b>47,671</b>	<b>–</b>
Satisfied by:		
Cash	43,138	–
Included in non-trading securities	4,533	–
	<b>47,671</b>	<b>–</b>

Analysis of net cash outflow in respect of disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	43,138	–
Cash and cash equivalents disposed of	(48,501)	–
Net cash outflow in respect of disposal of subsidiaries	<b>(5,363)</b>	<b>–</b>

Note:

*The results of the subsidiaries disposed of during the year and attributable to the Group was a loss of HK\$35,583,000 (2000: loss of HK\$6,481,000).*

# Notes to the Accounts

## (Continued)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Inclusion/exclusion of the toys and property subsidiaries on/from consolidation

	31 December 2001 HK\$'000	4 May 2000 HK\$'000
Net assets at the date of inclusion on consolidation on 31 December 2001/exclusion from consolidation on 4 May 2000:		
Fixed assets	955,876	(889,825)
Interests in associates	46,790	(137,369)
Loans receivable	23,889	(74,190)
Inventories	175,284	(163,185)
Properties held for sale	89,700	(249,986)
Trade and other receivables	264,467	(213,141)
Trading securities	1,861	(17,680)
Pledged bank deposits	10,090	(18,650)
Cash and cash equivalents	255,155	(120,523)
Trade and other payables	(398,341)	372,253
Bank loans and overdrafts	–	6,175
Taxation	(34,068)	19,602
Deferred taxation	(655)	3,206
Loans from minority shareholders	(78,402)	61,389
Minority interests	(93,002)	129,258
	<b>1,218,644</b>	<b>(1,292,666)</b>

Analysis of net inflow/(outflow) of cash and cash equivalents in respect of inclusion/exclusion of the toys and property subsidiaries on/from consolidation:

	31 December 2001 HK\$'000	4 May 2000 HK\$'000
Cash and cash equivalents	255,155	(120,523)

# Notes to the Accounts

## (Continued)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Long term bank loans HK\$'000	Amounts due to associates HK\$'000	Minority interests and loans from minority shareholders HK\$'000
At 1 January 2001	2,038,919	–	–	17,776
Exchange differences	–	–	–	(90)
Shares issued for non-cash consideration	17,970	–	–	–
Minority interests arising on acquisition of subsidiaries	–	–	–	12,069
Increase in interest in a subsidiary	–	–	–	(14,683)
Minority interests in treasury shares	–	–	–	(4,492)
Disposal of subsidiaries	–	–	–	(1,812)
Net cash inflow from shares issued by a subsidiary to minority shareholders	–	–	–	2,232
Share of loss for the year	–	–	–	(5,224)
Inclusion of the toys and property subsidiaries on consolidation	–	–	40,767	171,404
At 31 December 2001	2,056,889	–	40,767	177,180

# Notes to the Accounts

## (Continued)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (e) Analysis of changes in financing during the year (continued)

	Share capital (including share premium) HK\$'000	Long term bank loans HK\$'000	Amounts due to associates HK\$'000	Minority interests and loans from minority shareholders HK\$'000
At 1 January 2000	830,541	10,058	27,372	193,566
Exchange differences	–	–	–	94
Exercise of share options	14,144	–	–	–
Issue of new shares for cash	1,116,734	–	–	–
Issue of new shares to invest in an associate	77,500	–	–	–
Repayments during the year	–	(3,883)	(2,267)	–
Minority interests arising on acquisition of subsidiaries	–	–	–	19,375
Share of exchange reserve	–	–	–	235
Share of loss for the year	–	–	–	(1,374)
Share of investment properties revaluation reserve	–	–	–	(3,473)
Exclusion of the toys and property subsidiaries from consolidation	–	(6,175)	(25,105)	(190,647)
At 31 December 2000	2,038,919	–	–	17,776

#### (f) Major non-cash transactions

During the year, 59,500,000 ordinary shares with a par value of HK\$0.1 each were issued at HK\$0.302 per share to Whizz-Work as part of the consideration to acquire an equity interest of 75% in Whizz-Work.

### 32 CONTINGENT LIABILITIES

- (a) As at 31 December 2001, the Group pledged fixed deposits of HK\$10,090,000 in favour of certain banks to grant mortgage loans facilities to purchasers of the Group's properties in the People's Republic of China ("PRC") of which a sum of approximately HK\$9,666,000 was utilised at the year end.
- (b) One of the Group's subsidiaries (the "Subsidiary") was named in a law suit brought by a contractor relating to a property of the Group situated in the PRC since 1999. The dispute mainly includes outstanding balance of development costs, penalties on delay of construction and related damages. The amount due to this contractor has been fully accrued. While the final outcome of the proceedings is uncertain, in the opinion of the directors, any additional liability (if any) will not have a material impact on the Group's financial position.

# Notes to the Accounts

## (Continued)

### 33 CAPITAL COMMITMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	15,206	331
Authorised but not contracted for	14,470	–
	<b>29,676</b>	<b>331</b>

### 34 OPERATING LEASES

- (a) As at 31 December 2001, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Not later than one year	29,497	–	–	–
Later than one year and not later than five years	20,639	–	–	–
Later than five years	3,702	–	–	–
	<b>53,838</b>	<b>–</b>	<b>–</b>	<b>–</b>

- (b) At 31 December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Not later than one year	33,736	15,935	–	12,086
Later than one year and not later than five years	130,646	20,203	–	15,655
Later than five years	95,067	–	–	–
	<b>259,449</b>	<b>36,138</b>	<b>–</b>	<b>27,741</b>



# Notes to the Accounts

## (Continued)

### 35 MATERIAL RELATED PARTY TRANSACTIONS

- (a) On 24 August 2000, the Company entered into a Stock Purchase Agreement with FreeBorders, Inc. ("FreeBorders") pursuant to which the Group acquired 2,066,420 shares of Series B Preferred Stock in FreeBorders for a consideration of US\$5.6 million (equivalent to approximately HK\$43.7 million). On 10 November 2000, the Company entered into an Agreement and Plan of Merger and Reorganisation pursuant to which the Company agreed to subscribe for convertible notes of FreeBorders for a total sum of US\$2.5 million (equivalent to approximately HK\$19.5 million). The subscriptions were completed in April and July 2001. FreeBorders has been an associate of Internet Capital Group, Inc. ("ICG") which had been the Company's ultimate holding company prior to 12 July 2001.
- (b) On 21 February 2001, the Company entered into an Asset Purchase Agreement with ICG and ICG Japan K.K. ("ICGJ") under which the Company agreed to acquire all non-cash assets of ICGJ. The consideration was approximately HK\$33 million. ICG had been the Company's ultimate holding company prior to 12 July 2001.
- (c) On 22 June 2001, the Company entered into a Restructuring Agreement with MegaVillage pursuant to which MegaVillage agreed to waive in full a payment of US\$5 million (approximately HK\$39 million) payable by the Company in consideration for the sale of 35,000,001 ordinary shares in MegaVillage by the Company to MegaVillage. After the completion of the Restructuring Agreement, the Company's interest in MegaVillage was reduced from 52.95% to 19.9%.
- (d) On 26 June 2001, the Company entered into a Share Purchase Agreement to acquire 19.9% shareholding in a subsidiary, Breakaway Solutions Asia Pacific Limited ("BSAP"), for a consideration of US\$500,000 (approximately HK\$3.9 million). Upon completion of the acquisition in July 2001, BASP became a wholly owned subsidiary of the Company. In November 2001, the Group disposed of 90% of its shareholding in BASP for a consideration of approximately US\$5.3 million (approximately HK\$41.3 million).
- (e) The Company entered into a Put Option Deed on 9 March 2000 (as amended by supplemental deed dated 29 March 2000) and a Management Services Agreement ("MSA") on 28 April 2000 in respect of the toys and property subsidiaries.

Pursuant to the Put Option Deed entered into between the Company and Shamrock Green Limited ("Shamrock"), the Company was entitled to sell to Shamrock the toys and property subsidiaries for a consideration of approximately HK\$225 million during the period from 4 May 2000 to 3 May 2002. The Company's ultimate holding company, Hutchison Whampoa Limited, has a 50% indirect interest in Shamrock. The other 50% is owned by two companies controlled by Dr. Luk Chung Lam, the existing director of the Company.

Under the MSA entered into between the Company, certain directors/senior management of the Company comprising Dr. Luk Chung Lam, Messrs. Ko Yuet Ming, Tam Yue Man and Luk Tei, Lewis and Harbour Ring Group Limited ("HRG"), a company controlled by these directors/senior management, the Company gave HRG the exclusive right to manage and operate the toys and property subsidiaries including without limitation to control the dividend policies during the duration when the Put Option Deed remained valid.

On 19 December 2001, the Company entered into two separate deeds for cancellation of the Put Option Deed and the termination of the MSA with effect from 31 December 2001.

# Notes to the Accounts

## (Continued)

### 36 SUBSEQUENT EVENTS

- (a) On 14 January 2002, the Group entered into a sale and purchase agreement to acquire the remaining 18% of the issued share capital and all rights and interests in a shareholder's loan of Canyfield Printing Company Limited, a subsidiary of the Group, for a cash consideration of HK\$900,000.
- (b) On 31 January 2002, the Group entered into a Share Repurchase Agreement, a Shareholders' Agreement and an Option Agreement with Whizz-Work pursuant to which Whizz-Work agreed to repurchase 1,737,557 shares in Whizz-Work from the Group (the "First Share Repurchase") for a cash consideration of US\$5,850,000 (equivalent to approximately HK\$45,630,000). Upon completion of the First Share Repurchase, the Group's interest in Whizz-Work will be reduced from 75% to 15%. Pursuant to the Option Agreement, the Group has been granted a put option to require Whizz-Work to repurchase an additional 36,200 shares in Whizz-Work, representing 5% of the issued shares of Whizz-Work immediately following the First Share Repurchase, from the Group for a cash consideration of US\$200,000 (equivalent to approximately HK\$1,560,000). The put option is exercisable at any time between 31 January 2006 and 30 January 2009.

### 37 ULTIMATE HOLDING COMPANY

The directors regarded Internet Capital Group, Inc., a company incorporated in the State of Delaware, the United States, as being the ultimate holding company for the period prior to 12 July 2001.

On 12 July 2001, Hutchison Whampoa Limited, a company incorporated and listed in Hong Kong, became the ultimate holding company of the Company.

### 38 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 19 March 2002.

# Notes to the Accounts

## (Continued)

### 39 PARTICULARS OF THE PRINCIPAL TOYS AND PROPERTY SUBSIDIARIES

(a) Details of the principal toys and property subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of operations/ incorporation	Particulars of issued and paid up/registered capital	Group's effective interest %	Principal activity
* Harbour Ring Toys Group Limited	British Virgin Islands	US\$1,000 ordinary shares	100	Investment holding
* Harbour Ring Property Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	Investment holding
Acefield Limited	Hong Kong	HK\$100,000 ordinary shares HK\$2,000,000 non-voting deferred shares	100	Trading of moulds, materials and provision of management services
Asian Toy Institute Inc.	PRC/British Virgin Islands	US\$1 ordinary share	100	Investment holding and provision of educational services
Billymax Investments Limited	Hong Kong	HK\$2 ordinary shares	100	Property holding
Canyield Printing Company Limited	Hong Kong	HK\$100 ordinary shares	82	Manufacture of colour packaging boxes
Cardner International Inc.	Macau/British Virgin Islands	US\$200 ordinary shares	100	Trading of toys
Champaint Industrial Limited	Hong Kong	HK\$2 ordinary shares	100	Manufacture of paints
Champion Paper Factory Limited	Hong Kong	HK\$500,000 ordinary shares	100	Manufacture of paper boxes
Confine International Limited	Hong Kong	HK\$100 ordinary shares	90	Investment holding
Coronet Toys Company Limited	Hong Kong	HK\$100,000 ordinary shares HK\$200,000 non-voting deferred shares	100	Trading of moulds and provision of management services

# Notes to the Accounts

## (Continued)

### 39 PARTICULARS OF THE PRINCIPAL TOYS AND PROPERTY SUBSIDIARIES (continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued and paid up/registered capital	Group's effective interest %	Principal activity
† Dongguan Crown-Ace Toys Co., Ltd.	PRC	Rmb40,314,316 registered capital	91	Manufacture of toys
Goodway Electronic Technology Limited	Hong Kong	HK\$5,000,000 ordinary shares	100	Manufacture and trading of electronics toys
Harbour Ring Industries Limited	Hong Kong	HK\$2 ordinary shares  HK\$1,000,000 non-voting deferred shares	100	Investment holding and provision of management services
Harbour Ring Property Development Limited	Hong Kong	HK\$1,000 ordinary shares	100	Real estate agency, provision of project management services and trading of listed investments
i. Tech Dynamic Limited	Hong Kong	HK\$10,000 ordinary shares  HK\$850,000 non-voting deferred shares	100	Toys distributor, product design and cyber shopping
Macau International Toys Limited	Hong Kong	HK\$9,998 ordinary shares  HK\$2 non-voting deferred shares	100	Provision of management services and trading of moulds
P & H Development Limited	Hong Kong	HK\$7 ordinary shares  HK\$3 non-voting deferred shares	100	Investment holding
† Guangzhou Panyu Shanwan Acefield Toys Co., Ltd.	PRC	HK\$46,800,000 registered capital	96.75	Manufacture of toys

# Notes to the Accounts

## (Continued)

### 39 PARTICULARS OF THE PRINCIPAL TOYS AND PROPERTY SUBSIDIARIES (continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued and paid up/registered capital	Group's effective interest %	Principal activity
† Shanghai Gang Lu Real Estate Development Co., Ltd.	PRC	US\$16,000,000 registered capital	88	Property holding
† Shanghai Pu Gang Real Estate Development Co., Ltd.	PRC	US\$7,000,000 registered capital	80	Property holding
† Shaoxing Xian Heng Hotel Co., Ltd.	PRC	US\$13,880,000 registered capital	67.5	Hotel ownership and management
† Zhongshan Coronet Toys. Ltd.	PRC	Rmb20,265,205 registered capital	100	Manufacture of toys
† Zhongshan International Toys Ltd.	PRC	Rmb83,255,400 registered capital	75.6	Manufacture and trading of toys

The non-voting deferred shares practically carry no rights to dividends or receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

\* Shares held directly by the Company

† Sino-foreign equity joint ventures

(b) Details of the principal associates held by the toys and property subsidiaries as at 31 December 2001 are as follows:

Name of associate	Place of operations/ incorporation	Particulars of registered capital	Group's effective interest %	Principal activity
Shanghai Jia Hua Real – Estate Development Co., Ltd.	PRC	US\$5,000,000	50	Property holding
Zhejiang Jianhu Real Estate Development Co., Ltd.	PRC	US\$7,326,200	45	Property development

Unless otherwise stated, the principal place of operation of each company is the same as its place of incorporation.