

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

1. GENERAL

The Company is a public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the design, manufacture and sale of toys.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity. This change in accounting policy has been applied retrospectively.

Provisions

In accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated. Adoption of this accounting policy has resulted in the derecognition of provisions for product liabilities which do not meet the recognition criteria for provisions under SSAP 28. This change in accounting policy has been applied retrospectively.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st December 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In adopting SSAP 30 "Business Combinations", the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions on or after 1st January 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions on or after 1st January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (Cont'd)

The financial effect of the adoption of the new/revised accounting policies described above is summarised below:

	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1st January 2000			
As originally stated	—	203,768	203,768
Derecognition of liability for 1999 final dividend	33,339	—	33,339
Reversal of provisions for product liabilities	—	7,335	7,335
	<hr/>	<hr/>	<hr/>
As restated	<u>33,339</u>	<u>211,103</u>	<u>244,442</u>

The effect of the adoption of SSAP 28 on the results for the year ended 31st December 2000 is to increase the net profit for that year by HK\$571,000. The prior year's comparative amounts have been adjusted retrospectively. Had this standard not been adopted by the Group, the net profit for the year ended 31st December 2001 would have been decreased by HK\$305,000.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill/negative goodwill arising on acquisitions prior to 1st January 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions on or after 1st January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill arising on acquisitions on or after 1st January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment, other than land and buildings under construction, are stated at cost or valuation less depreciation and any accumulated impairment loss. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Land and buildings in the course of construction for production, rental or administrative purposes are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land and buildings held for own use are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than land and buildings under construction, over their estimated useful lives using the straight-line method as follows:

Category of assets	Estimated useful lives
Leasehold land and land use rights	Over the remaining term of the lease
Buildings	20 to 25 years or over the term of the land lease, if shorter
Plant and machinery	5 years
Moulds and tools	3 years
Other tangible fixed assets	4 to 5 years

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Other securities, being securities acquired for dealing purposes, are measured at fair value with unrealised gains and losses included in net profit or loss for the year.

Operating leases

Operating leases are leases whereby substantially all the risks and rewards of ownership of the assets remain with the lessors. Rentals payable (receivable) under operating leases are charged (credited) to the income statement on a straight-line basis over the relevant lease terms.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in foreign currencies are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation, if any, are dealt with in reserves.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments are recognised when the sale agreements become unconditional and it is probable that the economic benefits associated with the sales will flow to the Group.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income in respect of properties are recognised on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group is principally engaged in the design, manufacture and sales of toys. Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year. The businesses based upon which the Group reports its primary segment information are as follows:

Own Brand	—	Manufacture of toys designed/developed by the Group and sold under the Group's brand name or the labels of customers.
OEM/ODM	—	Manufacture of toys with design originated from customers and where the toolings are owned by customers.
Moulds	—	Manufacture of moulds for sale to customers.

Segment information about these businesses is presented below.

TURNOVER AND CONTRIBUTION

Year ended 31st December 2001

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	<u>444,466</u>	<u>112,239</u>	<u>4,462</u>	<u>561,167</u>
RESULT				
Segment result	<u>113,009</u>	<u>19,769</u>	<u>562</u>	133,340
Interest and other income				10,097
Unallocated corporate expenses				<u>(42,277)</u>
Profit from operations				101,160
Finance costs				(34)
Increase on revaluation of properties				<u>1,462</u>
Profit before taxation				102,588
Taxation				<u>(10,668)</u>
Net profit for the year				<u>91,920</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

BALANCE SHEET

At 31st December 2001

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	129,492	28,619	5,076	163,187
Unallocated corporate assets				389,163
Investment properties				4,600
Investments in securities				36,910
Consolidated total assets				<u>593,860</u>
LIABILITIES				
Segment liabilities	20,277	12,995	1,671	34,943
Unallocated corporate liabilities				59,109
Consolidated total liabilities				<u>94,052</u>

OTHER INFORMATION

Year ended 31st December 2001

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
ASSETS					
Capital additions	15,762	—	204	32,414	48,380
Depreciation	<u>29,216</u>	<u>5,518</u>	<u>1,056</u>	<u>3,843</u>	<u>39,633</u>

TURNOVER AND CONTRIBUTION

Year ended 31st December 2000

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	<u>363,378</u>	<u>179,737</u>	<u>7,581</u>	<u>550,696</u>
RESULT				
Segment result	<u>88,905</u>	<u>30,990</u>	<u>756</u>	120,651
Interest and other income				16,251
Unallocated corporate expenses				<u>(42,529)</u>
Profit from operations				94,373
Finance costs				(543)
Increase on revaluation of properties				<u>4,587</u>
Profit before taxation				98,417
Taxation				<u>(9,547)</u>
Net profit for the year				<u>88,870</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

BALANCE SHEET

At 31st December 2000

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	121,470	46,097	4,278	171,845
Unallocated corporate assets				354,696
Investment properties				4,600
Investments in securities				21,220
Consolidated total assets				<u>552,361</u>
LIABILITIES				
Segment liabilities	7,247	12,302	844	20,393
Unallocated corporate liabilities				75,330
Consolidated total liabilities				<u>95,723</u>

OTHER INFORMATION

Year ended 31st December 2000

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
ASSETS					
Capital additions	9,661	—	4,193	36,852	50,706
Depreciation	<u>21,810</u>	<u>4,348</u>	<u>2,707</u>	<u>2,927</u>	<u>31,792</u>

Geographical segments

The marketing of the Group's products is substantially carried out in Hong Kong while the Group's manufacturing activities are carried out in other regions in the People's Republic of China (the "PRC").

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Year ended	
	31/12/2001 HK\$'000	31/12/2000 HK\$'000
North America		
United States of America	230,078	168,689
Canada	60,607	73,617
Europe	191,919	203,758
Asia	52,189	77,097
Other locations	26,374	27,535
	<u>561,167</u>	<u>550,696</u>

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group ratio of profit to turnover.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31/12/2001 HK\$'000	At 31/12/2000 HK\$'000	Year ended 31/12/2001 HK\$'000	31/12/2000 HK\$'000
Hong Kong	237,408	187,405	828	313
The PRC	288,836	286,219	47,382	49,933
Other locations	67,616	78,737	170	460
	<u>593,860</u>	<u>552,361</u>	<u>48,380</u>	<u>50,706</u>

5. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Other revenue includes the following:		
Interest on bank deposits	3,569	6,806
Yield on held-to-maturity securities	1,832	1,839
Dividends from listed securities	36	63
Rentals from investment properties	317	308
	<u>317</u>	<u>308</u>

6. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	793	764
Depreciation of property, plant and equipment	39,633	31,792
Research and development expenditure	8,572	7,799
Staff costs including directors' remuneration (see note below)	93,386	88,233
Net realised loss (gain) on dealing securities	102	(571)
Net unrealised holding (gain) loss on dealing securities	(460)	75
	<u>(460)</u>	<u>75</u>

Note:

The staff costs disclosed above include employer's contributions to retirement benefit schemes amounting to HK\$1,225,000 (2000: HK\$1,056,000), net of forfeited contributions of HK\$43,000 (2000: HK\$206,000). At the balance sheet date, there were no forfeited employer's contributions available to offset the Group's future contributions to the retirement schemes.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank overdrafts	<u>34</u>	<u>543</u>

8. INCREASE ON REVALUATION OF PROPERTIES

	2001 HK\$'000	2000 HK\$'000
Increase on revaluation of land and buildings for own use	<u>1,462</u>	<u>4,587</u>

The increase arising on the revaluation of land and buildings held for own use has been credited to income statement to the extent that it is a reversal of the deficit charged to the income statement in prior year.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Directors' fees	675	693
Other emoluments		
Basic salaries, allowances and benefits-in-kind	5,212	4,993
Performance related incentive payments	3,910	4,130
Retirement benefit scheme contributions	<u>266</u>	<u>256</u>
Total emoluments	<u>10,063</u>	<u>10,072</u>

The amounts disclosed above include directors' fees of HK\$200,000 (2000: HK\$200,000) and HK\$475,000 (2000: HK\$493,000) paid or payable to two (2000: two) independent non-executive directors and three (2000: three) non-executive directors respectively.

The emoluments of the directors are within the following bands:

HK\$	2001 Number of directors	2000 Number of directors
4,500,001 – 5,000,000	–	1
4,000,001 – 4,500,000	1	–
1,000,001 – 1,500,000	3	3
Nil – 1,000,000	<u>7</u>	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

The emoluments of the five highest paid employees which included five (2000: four) directors are set out below:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, allowances and other benefits-in-kind	5,212	5,286
Performance related incentive payments	3,910	4,864
Retirement benefit scheme contributions	266	216
	<u>9,388</u>	<u>10,366</u>

Their emoluments are within the following bands:

HK\$	2001 Number of employees	2000 Number of employees
4,500,001 – 5,000,000	–	1
4,000,001 – 4,500,000	1	–
1,500,001 – 2,000,000	–	1
1,000,001 – 1,500,000	3	3
Nil – 1,000,000	<u>1</u>	<u>–</u>

10. TAXATION

	2001 HK\$'000	2000 HK\$'000
Tax on profit for the year		
Hong Kong	6,948	7,058
The PRC	4,670	4,558
Other jurisdictions	24	–
	<u>11,642</u>	<u>11,616</u>
Prior years' overprovision		
Hong Kong	(1,264)	(1,722)
The PRC	–	(1,000)
	<u>(1,264)</u>	<u>(2,722)</u>
Deferred taxation (note 23)	<u>290</u>	<u>653</u>
Taxation attributable to the Group	<u>10,668</u>	<u>9,547</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the year.

Tax liabilities arising in the PRC and other jurisdictions are calculated at the applicable rates prevailing in the relevant jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

11. DIVIDENDS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interim dividend paid HK5 cents (2000: HK4.55 cents) per ordinary share	18,088	16,511
Final dividend proposed HK10 cents (2000: HK9.09 cents) per ordinary share	<u>36,856</u>	<u>32,919</u>
	<u>54,944</u>	<u>49,430</u>

The final dividend of HK10 cents per ordinary share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

The amount of final dividend proposed is calculated based on the number of shares in issue as at the date of approval of these financial statements.

The interim and final dividend per share for the year 2000 have been adjusted to take into account the effect of the bonus issue of shares made during the year.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$91,920,000 (2000: HK\$88,870,000) and on the weighted average number of 361,943,577 (2000: 364,690,511) ordinary shares in issue during the year.

The net profit for the year ended 31st December 2000 and the number of ordinary shares adopted in the calculation of the earnings per share for that year have been respectively restated as a result of the changes in accounting policies as described in note 2 and the bonus issue of shares made during the current year.

No diluted earnings per share figures have been presented because the exercise price of the share options granted by the Company was higher than the average market price for the Company's shares for both years presented.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		Plant and machinery HK\$'000	Moulds and tools HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
	For own use HK\$'000	Under construction HK\$'000					
THE GROUP							
COST OR VALUATION							
At 1st January 2001	157,600	3,508	90,746	83,370	49,790	5,928	390,942
Additions	17,098	364	8,264	15,618	5,659	1,377	48,380
Reclassifications	3,746	(3,872)	—	—	126	—	—
Revaluation decrease	(1,344)	—	—	—	—	—	(1,344)
Disposals	—	—	(2,841)	(390)	(293)	(461)	(3,985)
At 31st December 2001	177,100	—	96,169	98,598	55,282	6,844	433,993
Comprising:							
At cost	—	—	96,169	98,598	55,282	6,844	256,893
At 2001 valuation	177,100	—	—	—	—	—	177,100
	177,100	—	96,169	98,598	55,282	6,844	433,993
DEPRECIATION							
At 1st January 2001	—	—	59,375	75,405	27,272	4,938	166,990
Provided for the year	6,692	—	12,561	14,539	5,220	621	39,633
Eliminated on revaluation	(6,692)	—	—	—	—	—	(6,692)
Eliminated on disposals	—	—	(2,679)	(390)	(289)	(461)	(3,819)
At 31st December 2001	—	—	69,257	89,554	32,203	5,098	196,112
NET BOOK VALUES							
At 31st December 2001	<u>177,100</u>	<u>—</u>	<u>26,912</u>	<u>9,044</u>	<u>23,079</u>	<u>1,746</u>	<u>237,881</u>
At 31st December 2000	<u>157,600</u>	<u>3,508</u>	<u>31,371</u>	<u>7,965</u>	<u>22,518</u>	<u>990</u>	<u>223,952</u>

An analysis of the net book value of the Group's land and buildings is set out below:

	For own use		Under construction	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
In Hong Kong				
On long lease	41,000	41,000	—	—
On medium-term lease	1,100	1,100	—	—
In the PRC				
On medium-term lease	135,000	115,500	—	3,508
	<u>177,100</u>	<u>157,600</u>	<u>—</u>	<u>3,508</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group's land and buildings for own use are carried at their open market value, on an existing use basis, on 31st December 2001 as valued by RHL Appraisal Ltd., a firm of independent property valuers. The increase arising on revaluation of the properties for own use amounted to HK\$5,348,000 (2000: HK\$13,306,000) of which HK\$3,886,000 (HK\$8,719,000) has been credited to the asset revaluation reserve and the balance of HK\$1,462,000 (2000: HK\$4,587,000) has been credited to the income statement.

At 31st December 2001, had the Group's land and buildings for own use been carried at cost less accumulated depreciation, the carrying amount of such assets included in the financial statements would have been HK\$177,654,000 (2000: HK\$162,458,000).

14. INVESTMENT PROPERTIES

	Land and buildings in Hong Kong on long lease	
	2001	2000
	HK\$'000	HK\$'000
THE GROUP		
VALUATION		
At beginning and end of the year	<u>4,600</u>	<u>4,600</u>

The Group's investment properties are carried at their open market value in their existing state on 31st December 2001 as valued by RHL Appraisal Ltd., a firm of independent property valuers.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares	107,136	107,136
Amount due from a subsidiary	<u>173,793</u>	<u>152,556</u>
	<u>280,929</u>	<u>259,692</u>

The amount due from a subsidiary is unsecured, interest free and is not repayable within twelve months from the balance sheet date.

The carrying value of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the group reorganisation implemented in 1995, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

The table below lists the subsidiaries of the Group at 31st December 2001, which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries which are operating in the place in which they are incorporated or registered unless otherwise indicated, are as follows: —

Name of subsidiary	Place/country of incorporation or registration	Paid-up issued/registered capital	Principal activities
Wholly-owned subsidiary directly held:			
RBI International Investment Limited (i)	British Virgin Islands	Ordinary US\$30,000	Investment holding and trading of securities
Wholly-owned subsidiaries indirectly held:			
Dongguan Tai Fat Toy Factory Ltd. (a foreign wholly-owned enterprise)	PRC	Registered HK\$22,510,780	Manufacture and sale of toys
Dongguan Tungfat Toy Factory Co. Ltd. (a foreign wholly-owned enterprise)	PRC	Registered HK\$31,000,000	Manufacture and sale of toys
Hung Fat Toy Factory Limited (ii)	Hong Kong	Ordinary HK\$1,000,000	Manufacture and sale of toys
Motormax Toy Factory Limited	Hong Kong	Ordinary HK\$100,000	Trading of toys
RBI Industries (Shenzhen) Co. Ltd. (a foreign wholly-owned enterprise)	PRC	Registered HK\$40,000,000	Manufacture and sale of toys
RBI Distributors Ltd.	United Kingdom	Ordinary £2	Trading of toys
RBI Toys Inc.	United States of America	Ordinary US\$1,000	Trading of toys
Red Box Toy Factory Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred (iii) HK\$12,000,000	Design, trading and marketing of toys and investment holding
Tai Fat Toy Factory (China) Limited (ii)	Hong Kong	Ordinary HK\$2,900,000 Non-voting deferred (iii) HK\$5,100,000	Manufacture and sale of toys

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

15. INTERESTS IN SUBSIDIARIES (Cont'd)

- (i) Operating principally in Hong Kong.
- (ii) Operating principally in the PRC.
- (iii) The non-voting deferred shares, which are held by RBI International Investment Limited, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the respective companies or to participate in any distributions on winding up.

None of the subsidiaries had any loan capital outstanding during the year and at the end of the year.

16. AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary is unsecured, interest free and has no fixed repayment terms.

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Held-to-maturity securities, unlisted	35,692	20,029
Dealing equity securities listed in Hong Kong	1,218	1,191
	<hr/>	<hr/>
	36,910	21,220
Less: Securities included in current assets	(11,232)	(10,815)
	<hr/>	<hr/>
	25,678	10,405
	<hr/>	<hr/>
Market value of listed securities	1,218	1,191
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

18. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	22,616	29,559
Work in progress	37,892	30,566
Finished goods	48,311	42,480
	<u>108,819</u>	<u>102,605</u>

19. TRADE AND OTHER RECEIVABLES

The Group allows a credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade and other receivables outstanding at the balance sheet date:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 – 30 days	20,412	16,498
31 – 60 days	7,827	10,095
61 – 90 days	5,102	18,098
Over 90 days	6,296	1,598
	<u>39,637</u>	<u>46,289</u>

20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables outstanding at the balance sheet date:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
0 – 30 days	44,533	48,114
31 – 60 days	1,744	2,860
61 – 90 days	189	241
Over 90 days	801	745
	<u>47,267</u>	<u>51,960</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

21. SHARE CAPITAL

	Number of shares		Nominal value	
	2001 '000	2000 '000	2001 HK\$'000	2000 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised	<u>800,000</u>	<u>800,000</u>	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:				
At beginning of the year	330,079	334,909	33,008	33,491
Bonus issue	32,899	—	3,290	—
Repurchased and cancelled	<u>(1,222)</u>	<u>(4,830)</u>	<u>(122)</u>	<u>(483)</u>
At end of the year	<u>361,756</u>	<u>330,079</u>	<u>36,176</u>	<u>33,008</u>

During the year, the Company made a bonus issue of 32,899,162 shares of HK\$0.1 each to shareholders, credited as fully paid by way of capitalisation of part of the Company's share premium, on the basis of one bonus share for every ten shares then held.

During the year, the Company repurchased 1,222,000 ordinary shares of the Company on the Stock Exchange, all of which have been cancelled, as follows:

Month	Number of ordinary shares of HK\$0.1 each	Purchase price		Total consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
2001				
January	456,000	1.33	1.29	597
February	384,000	1.34	1.32	508
March	50,000	1.32	1.32	66
April	48,000	1.37	1.35	65
May	150,000	1.48	1.45	221
June	84,000	1.30	1.28	108
August	<u>50,000</u>	<u>1.28</u>	<u>1.28</u>	<u>64</u>
	<u>1,222,000</u>			<u>1,629</u>

These repurchases were effected by the directors pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by the enhancement of the earnings per share of the Company.

None of the Company's subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year.

Share Option Scheme

In 1997, options for 6,400,000 shares were granted at no consideration to a director of the Company under the Share Option Scheme which are exercisable during the period from 11th August 1997 to 10th August 2007 at the price of HK\$1.50 per share. The exercise price and the number of shares under option have been adjusted to HK\$1.3636 per share and 7,040,000 shares respectively with effect from 28th May 2001 as a result of the bonus issue of shares made during the year. These options remained outstanding at 31st December 2001 and were exercised after the balance sheet date. No options under the scheme were granted, exercised, cancelled or lapsed during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

22. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Asset re- valuation reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
At 1st January 2000								
As originally stated	130,931	1,374	—	10,407	(5,720)	—	203,768	340,760
Derecognition of liability for 1999 final dividend (note 2)	—	—	—	—	—	33,339	—	33,339
Reversal of provisions for product liabilities (note 2)	—	—	—	—	—	—	7,335	7,335
As restated	130,931	1,374	—	10,407	(5,720)	33,339	211,103	381,434
1999 final dividend paid	—	—	—	—	—	(33,339)	—	(33,339)
Repurchase of shares	(4,520)	483	—	—	—	—	(1,506)	(5,543)
Revaluation increase	—	—	8,719	—	—	—	—	8,719
Profit for the year	—	—	—	—	—	—	88,870	88,870
2000 interim dividend paid	—	—	—	—	—	—	(16,511)	(16,511)
2000 final dividend proposed	—	—	—	—	—	32,919	(32,919)	—
Other appropriations	—	—	—	4,726	—	—	(4,726)	—
At 31st December 2000	126,411	1,857	8,719	15,133	(5,720)	32,919	244,311	423,630
2000 final dividend paid	—	—	—	—	—	(32,919)	—	(32,919)
Bonus issue of shares	(3,290)	—	—	—	—	—	—	(3,290)
Repurchase of shares	(1,144)	122	—	—	—	—	(485)	(1,507)
Revaluation increase	—	—	3,886	—	—	—	—	3,886
Profit for the year	—	—	—	—	—	—	91,920	91,920
2001 interim dividend paid	—	—	—	—	—	—	(18,088)	(18,088)
2001 final dividend proposed	—	—	—	—	—	36,856	(36,856)	—
Other appropriations	—	—	—	2,520	—	—	(2,520)	—
At 31st December 2001	<u>121,977</u>	<u>1,979</u>	<u>12,605</u>	<u>17,653</u>	<u>(5,720)</u>	<u>36,856</u>	<u>278,282</u>	<u>463,632</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

22. RESERVES (Cont'd)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY						
At 1st January 2000						
As originally stated	130,931	1,374	100,635	—	12,027	244,967
Derecognition of liability for 1999 final dividend (note 2)	—	—	—	33,339	—	33,339
As restated	130,931	1,374	100,635	33,339	12,027	278,306
1999 final dividend paid	—	—	—	(33,339)	—	(33,339)
Repurchase of shares	(4,520)	483	—	—	(1,506)	(5,543)
Profit for the year	—	—	—	—	58,644	58,644
2000 interim dividend paid	—	—	—	—	(16,511)	(16,511)
2000 final dividend proposed	—	—	—	32,919	(32,919)	—
At 31st December 2000	126,411	1,857	100,635	32,919	19,735	281,557
2000 final dividend paid	—	—	—	(32,919)	—	(32,919)
Bonus issue of shares	(3,290)	—	—	—	—	(3,290)
Repurchase of shares	(1,144)	122	—	—	(485)	(1,507)
Profit for the year	—	—	—	—	58,451	58,451
2001 interim dividend paid	—	—	—	—	(18,088)	(18,088)
2001 final dividend proposed	—	—	—	36,856	(36,856)	—
At 31st December 2001	121,977	1,979	100,635	36,856	22,757	284,204

Capital reserve includes enterprise reserve fund in respect of PRC subsidiaries appropriated from retained profits.

Contributed surplus represents the excess value of the subsidiaries acquired over the nominal value of the Company's shares issued which, under the Companies Act 1981 of Bermuda (as amended), is available for distribution to the shareholders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

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

In the opinion of the directors, as at 31st December 2001, the Company's reserves available for distribution consisted of contributed surplus of HK\$100,635,000 (2000: HK\$100,635,000), dividend reserve of HK\$36,856,000 (2000: HK\$32,919,000) and retained profits of HK\$22,757,000 (2000: HK\$19,735,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

23. DEFERRED TAX LIABILITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
At 1st January	2,878	2,225
Charge for the year (note 10)	290	653
At 31st December	<u>3,168</u>	<u>2,878</u>

The deferred tax liabilities at the balance sheet date are attributable to excess of tax allowances over depreciation in respect of property, plant and equipment.

Deferred tax has not been provided on the increase or decrease arising on the revaluation of properties as it does not constitute a timing difference for tax purposes.

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

24. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	102,588	98,417
Increase on revaluation of properties	(1,462)	(4,587)
Dividend income	(36)	(63)
Interest on bank deposits	(3,569)	(6,806)
Yield on held-to-maturity securities	(1,832)	(1,839)
Interest expenses	34	543
Depreciation of property, plant and equipment	39,633	31,792
Net realised loss (gain) on dealing securities	102	(571)
Net unrealised holding (gain) loss on dealing securities	(460)	75
(Gains) loss on disposals of property, plant and equipment	(160)	80
Increase in inventories	(6,214)	(24,709)
Decrease in trade and other receivables	6,813	11,096
Decrease in bills receivable	7,939	3,061
Decrease (increase) in deposits and prepayments	2,487	(3,885)
(Decrease) increase in trade and other payables	(4,693)	13,884
Increase (decrease) in deposits and accruals	3,973	(2,341)
Net cash inflow from operating activities	<u>145,143</u>	<u>114,147</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium <i>HK\$'000</i>
Balance at 1st January 2000	164,422
Repurchase of shares	<u>(5,003)</u>
Balance at 31st December 2000	159,419
Repurchase of shares	<u>(1,266)</u>
Balance at 31st December 2001	<u><u>158,153</u></u>

26. OPERATING LEASES

The Group as lessee

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Minimum lease payments paid under operating leases in respect of land and buildings during the year	<u><u>2,463</u></u>	<u><u>3,269</u></u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	1,320	2,266
In the second to fifth year inclusive	367	1,634
Over five years	<u>—</u>	<u>52</u>
	<u><u>1,687</u></u>	<u><u>3,952</u></u>

Operating lease payments represent rentals payable by the Group for overseas offices and warehouses. Leases are negotiated for an average term of two to three years and rentals are fixed during such period.

At 31st December 2001 and 2000, the Company had no commitments under non-cancellable operating leases.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2001

26. OPERATING LEASES (Cont'd)

The Group as lessor

Property rental income earned during the year was HK\$317,000 (2000: HK\$308,000). The properties are expected to generate rental yields of approximately 7% on an ongoing basis. The properties held have committed tenants for less than two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one year	366	286
In the second to fifth year inclusive	107	—
	<u>473</u>	<u>286</u>

27. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	<u>511</u>	<u>14,474</u>

At 31st December 2001 and 2000, the Company had no significant capital commitments.

28. CONTINGENCIES AND PLEDGE OF ASSETS

The Company has given guarantees to banks amounting to approximately HK\$38,500,000 (2000: HK\$38,500,000) in respect of general banking facilities granted to the Group.

The Group has pledged its land and buildings having a net book value of HK\$24,100,000 (2000: HK\$24,100,000) to secure general banking facilities granted to the Group.