

Notes to the Financial Statements

1. ORGANISATION AND OPERATIONS

Compass Pacific Holdings Limited (the “Company”) was 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 Company is an investment holding company and its subsidiaries (together with the Company referred to as the “Group”) are mainly engaged in the operation of indoor game centres and the manufacture and sale of automobile axles in the People’s Republic of China (the “PRC”). The directors consider Daiweldo Group Limited (“DWD”), a company incorporated in the British Virgin Islands, to be the ultimate holding company. DWD is wholly-owned by DWD Foundation Ltd. which is wholly and beneficially owned by certain directors of the Company.

During 2001, DWD disposed of 150,000,000 ordinary shares of the Company to three independent third parties. At completion of the disposal, DWD and Brilliance China Automotive Holdings Limited were interested in 630,304,400 ordinary shares and 162,951,000 ordinary shares, representing 49.88% and 12.90% of the issued share capital of the Company, respectively.

The Group’s operation of the manufacture and sale of automobile axles segment was suspended. The directors consider that the suspension of this business segment is temporary.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(a) Basis of measurement

The financial statements are prepared under the historical cost basis, as modified by the revaluation of the investment property.

(b) Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the HKSA:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Adoption of Statements of Standard Accounting Practice *(Continued)*

SSAP 14 (revised) is in principle similar to the old SSAP 14 “Accounting for leases and hire purchase contracts”. Other than the change in the disclosure of operating lease commitments (Note 25(b)), the consequential change made to SSAP 14 has no material impact on the financial statements of the Group and the Company.

SSAP 26 establishes principles for reporting financial information by segment to help users of financial statements to better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively.

SSAP 30 prescribes the accounting treatment for business combinations. In addition, it requires goodwill arising from an acquisition to be capitalised and amortised over its estimated useful life. The transitional provisions of the standard encourage but do not require the Group to restate goodwill, that was eliminated against reserves previously, when it first adopts the standard. As a result, the Group has chosen not to restate goodwill that was eliminated against reserves previously. Except for the non-restatement of goodwill as mentioned above, the adoption of SSAP 30 has no material impact on the financial statements of the Group and the Company.

SSAP 31 prescribes the accounting for and disclosure of impairment of assets. It requires that the recoverable amount of an asset be estimated whenever there is an indication that the asset may be impaired or previous impairment may no longer exist or may have decreased. It also requires that an impairment loss be recognised whenever the carrying amount of an asset exceeds its recoverable amount. This change in accounting policy has been applied prospectively.

In accordance with the provisions of Interpretation 13 “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves” issued by the HKSA, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be restated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement. The amendments to SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirements of SSAP 2 and the transitional provisions in SSAP 30. Accordingly, provision for impairment of goodwill of approximately HK\$8 million was made retrospectively before 1st January, 2000.

In addition, the Group has also adopted the consequential changes made to SSAP 17 “Property, plant and equipment” and SSAP 18 “Revenue”.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Adoption of Statements of Standard Accounting Practice *(Continued)*

Save as mentioned above, the Group considers that the first-time adoption of and the consequential changes made to the new and revised accounting standards do not have a material impact on the financial statements of the Group and the Company.

Unless otherwise stated, the 2000 comparative figures presented herewith have incorporated the effect of adjustments, where applicable, resulting from the adoption of and the consequential changes made to the new and revised accounting standards above.

(c) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

(d) Joint ventures

The Group's investments in joint ventures in the PRC are in the form of Sino-foreign co-operative or Sino-foreign equity joint ventures. For Sino-foreign co-operative joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture terms may not be in proportion to their equity ratio but are as defined in the respective joint venture contracts. For Sino-foreign equity joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture years are in proportion to their equity contribution ratio.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Joint ventures *(Continued)*

Where the Group's investments are made in the form of jointly controlled entities, a contractual arrangement where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity, such investments are accounted for using the equity method in the consolidated financial statements.

Investments made by means of joint venture structures which do not result in the Group having joint control with other venturers are accounted for as subsidiaries where the Group has the power to govern the financial and operating policies of the joint venture so as to benefit from its activities.

All of the Group's investments in joint ventures are accounted for as subsidiaries.

(e) Goodwill

The excess of the cost of an acquisition over the Group's interest in the fair value of the net identifiable assets and liabilities acquired as at the date of the acquisition is recorded as goodwill. All goodwill of the Group arose from transactions completed prior to 1st January, 2001, and was eliminated directly against reserves and reduced by impairment losses (see Note 2(b) for details).

(f) Fixed assets and depreciation

Fixed assets, other than investment property, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets 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 fixed asset beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the fixed asset.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Fixed assets and depreciation (Continued)

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Land use rights and buildings	Over the term of the lease or 50 years, whichever is shorter
Leasehold improvements, fixture and fittings, and furniture and equipment	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Game equipment	20%
Machinery	10%
Motor vehicles	20% to 25%

The useful lives of assets and the depreciation method are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment losses are eliminated and any gain or loss resulting from their disposal is included in the income statement.

(g) Investment property

Investment property is an interest in land and buildings in respect of which construction work and development have been completed and which is held for its long-term investment potential.

Investment property is stated at open market value determined annually by independent valuers.

Increases in the carrying amount of investment property are credited to the revaluation reserve in shareholders' funds. Decreases are first offset against increases on earlier valuations in the revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the revaluation reserve should be charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus should be credited to the income statement to the extent of the deficit previously charged.

No depreciation is provided on investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the carrying value over the unexpired lease term.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase 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 necessary to make the sale.

(i) Receivables

Accounts receivable, other receivables and amount due from a related company are stated at their cost, after provision for doubtful debts.

(j) Cash and cash equivalents

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(k) Provisions

A provision is recognised when an enterprise has a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(l) Turnover

Turnover represents revenues from games, rides and other amusement facilities, and gross invoiced sales of automobile axles, net of discounts and returns.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Games, rides and other amusement facilities

Revenues from games, rides and other amusement facilities are recognised upon the sales of tokens to customers.

(ii) Sale of automobile axles

Revenue from the sale of automobile axles is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(iii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

(n) Research and development expenditures

Research and development expenditures are charged against income in the period incurred except for development costs which comply with the following criteria:

- the product or process is clearly defined and the costs are separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

All research and development expenditures are charged against income during the year.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) **Deferred taxation**

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise.

(p) **Foreign currency**

(i) Foreign currency transactions

The Company and its subsidiaries maintain their books and records in Hong Kong Dollars, United States Dollars or Chinese Renminbi. Transactions in other currencies are translated into the respective reporting currencies at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at the date. All exchange differences are recognised in the income statement in the period in which they arise.

(ii) Foreign entities

All foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at an average rate for the year with respect to the income statement. All resulting translation differences are included in the translation reserve included in equity.

(q) **Operating leases**

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term.

(r) **Borrowing costs**

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, and are expensed as incurred.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits

(i) *Defined contribution plans*

The Group provides defined contribution plans based on local laws and regulations. The plans cover full-time employees and provide for contributions amounting to 5% of salary. The Group's contributions to defined contribution plans are charged to income in the year to which they relate.

(ii) *PRC pension scheme*

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Group's PRC staff are made monthly to a government agency based on a range of approximately 25% to 29% of the standard salary set by the provincial government, of which approximately 20% to 24% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

(t) Impairment of assets

Fixed assets and investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of fixed assets and investments in subsidiaries carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the net amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

(u) Segments

For management purposes the Group is organised into three major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 3.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(w) Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(x) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Financial Statements

3. SEGMENT INFORMATION

(a) Business segments

The Group conducts the majority of its business activities in three areas: operation of indoor game centres, manufacture and sale of automobile axles and investment holding. An analysis by business segment is as follows:

	Operation of indoor game centres		Manufacture and sale of automobile axles		Investment holding		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
		(Note 28)		(Note 28)		(Note 28)		(Note 28)
REVENUE								
Sales to external customers	<u>14,233</u>	<u>18,166</u>	<u>30</u>	<u>13,836</u>	<u>-</u>	<u>-</u>	<u>14,263</u>	<u>32,002</u>
RESULTS								
Segment results	<u>(1,273)</u>	<u>(7,906)</u>	<u>(2,041)</u>	<u>2,680</u>	<u>(35,426)</u>	<u>(7,496)</u>	<u>(38,740)</u>	<u>(12,722)</u>
Other revenue from discontinued operations							<u>-</u>	<u>813</u>
Loss from operations							<u>(38,740)</u>	<u>(11,909)</u>
Other income							<u>3,394</u>	<u>-</u>
Finance costs							<u>(156)</u>	<u>(3,690)</u>
Income tax expense							<u>-</u>	<u>-</u>
Minority interests							<u>392</u>	<u>(1,313)</u>
Loss attributable to shareholders							<u>(35,110)</u>	<u>(16,912)</u>
ASSETS AND LIABILITIES								
Segment assets	<u>10,717</u>	<u>12,105</u>	<u>26,345</u>	<u>39,228</u>	<u>183,356</u>	<u>206,881</u>	<u>220,418</u>	<u>258,214</u>
Segment liabilities	<u>3,518</u>	<u>3,400</u>	<u>383</u>	<u>2,952</u>	<u>7,635</u>	<u>3,555</u>	<u>11,536</u>	<u>9,907</u>
OTHER INFORMATION								
Capital expenditure	<u>964</u>	<u>5,637</u>	<u>253</u>	<u>147</u>	<u>44</u>	<u>2,567</u>	<u>1,261</u>	<u>8,351</u>
Depreciation	<u>2,608</u>	<u>11,808</u>	<u>1,245</u>	<u>791</u>	<u>516</u>	<u>223</u>	<u>4,369</u>	<u>12,822</u>
Provision for doubtful debts	<u>-</u>	<u>-</u>	<u>2,805</u>	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>8,805</u>	<u>-</u>
Revaluation deficit on investment property	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900</u>	<u>1,417</u>	<u>900</u>	<u>1,417</u>

Notes to the Financial Statements

3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's activities are conducted in Hong Kong and the PRC. An analysis by geographical segment is as follows:

	Hong Kong		The PRC		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note 28)		(Note 28)		(Note 28)
REVENUE						
Sales to external customers	<u>–</u>	<u>–</u>	<u>14,263</u>	<u>32,002</u>	<u>14,263</u>	<u>32,002</u>
RESULTS						
Segment results	<u>(35,426)</u>	<u>(7,496)</u>	<u>(3,314)</u>	<u>(5,226)</u>	<u>(38,740)</u>	<u>(12,722)</u>
Other revenue from discontinued operations					<u>–</u>	<u>813</u>
Loss from operations					<u>(38,740)</u>	<u>(11,909)</u>
Other income					<u>3,394</u>	<u>–</u>
Finance costs					<u>(156)</u>	<u>(3,690)</u>
Income tax expense					<u>–</u>	<u>–</u>
Minority interests					<u>392</u>	<u>(1,313)</u>
Loss attributable to shareholders					<u>(35,110)</u>	<u>(16,912)</u>
ASSETS AND LIABILITIES						
Segment assets	<u>183,356</u>	<u>206,881</u>	<u>37,062</u>	<u>51,333</u>	<u>220,418</u>	<u>258,214</u>
Segment liabilities	<u>7,635</u>	<u>3,555</u>	<u>3,901</u>	<u>6,352</u>	<u>11,536</u>	<u>9,907</u>
OTHER INFORMATION						
Capital expenditure	<u>44</u>	<u>2,567</u>	<u>1,217</u>	<u>5,784</u>	<u>1,261</u>	<u>8,351</u>
Depreciation	<u>516</u>	<u>223</u>	<u>3,853</u>	<u>12,599</u>	<u>4,369</u>	<u>12,822</u>
Provision for doubtful debts	<u>6,000</u>	<u>–</u>	<u>2,805</u>	<u>–</u>	<u>8,805</u>	<u>–</u>
Revaluation deficit on investment property	<u>900</u>	<u>1,417</u>	<u>–</u>	<u>–</u>	<u>900</u>	<u>1,417</u>

Notes to the Financial Statements

4. REVENUE

	2001 HK\$'000	2000 HK\$'000
Turnover:		
– Revenues from games, rides and other amusement facilities	14,233	18,166
– Sale of automobile axles	30	13,836
Total turnover	<u>14,263</u>	<u>32,002</u>
Other revenues from continuing operations:		
– Interest income	7,011	3,293
– Miscellaneous	563	753
	<u>7,574</u>	<u>4,046</u>
Other revenue from discontinued operations:		
– Write-back of net liabilities of subsidiaries under liquidation	–	813
Total other revenues	<u>7,574</u>	<u>4,859</u>
Total revenues	<u><u>21,837</u></u>	<u><u>36,861</u></u>

5. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and other borrowings:		
– Wholly repayable within five years	156	–
– Not wholly repayable within five years	–	234
Interest on loan from a former shareholder	–	1,304
Interest on loan from a shareholder	–	2,089
Interest on loan from a related company	–	63
	<u>156</u>	<u>3,690</u>

Notes to the Financial Statements

6. LOSS BEFORE TAX

Loss before tax is determined after charging or crediting the following items:

	2001 HK\$'000	2000 HK\$'000
After charging:		
Staff costs (including directors' emoluments)	25,088	10,034
Auditors' remuneration	420	500
Depreciation of fixed assets	4,369	12,822
Fixed asset written-off	24	–
Provision for doubtful debts	8,805	–
Revaluation deficit on investment property	900	1,417
Cost of inventories	1,129	10,825
Research and development costs	5,333	–
Interest expense	156	3,690
Operating lease rentals in respect of rented premises	4,340	5,722
Pension scheme contributions:		
– Hong Kong	142	11
– PRC	442	486
	<u> </u>	<u> </u>
After crediting:		
Gain on disposal of fixed assets	12	51
Interest income from bank deposits	6,613	3,198
Interest income from a related company	398	95
Write-back of minority interest (i)	3,394	–
Write-back of net liabilities of subsidiaries under liquidation	–	813
	<u> </u>	<u> </u>

- (i) During the year, the Group agreed with the joint venture partner of Shenyang Liao Hua Automobile Axles Co., Limited ("Liao Hua") that the dividends distributed by Liao Hua, a subsidiary of the Company, in 2001 was to be allocated to the joint venture partners in a ratio other than the original profit sharing ratio. The write-back of minority interest represents the excess in profit sharing of Liao Hua's results in previous years by the joint venture partner of Liao Hua.

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7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

- (a) Details of directors' emoluments pursuant to Section 161 of the Companies Ordinance are set out below:

	2001	2000
	HK\$'000	HK\$'000
Non-executive directors		
Fees	—	120
Executive directors		
Fees	—	—
Salaries, allowances and benefits in kind	3,638	1,663
Pension scheme contributions	24	2
Bonuses paid and payable	—	—
	3,662	1,665
Total	3,662	1,785

The emoluments of the directors represent the amount paid to or receivable by the directors in the respective financial year and exclude the benefits derived from or to be derived from the share options granted under the Share Option Scheme as detailed in Note 20.

The emoluments of the directors analysed by the number of directors and emoluments ranges are as follows:

	Number of directors	
	2001	2000
Up to HK\$1,000,000	9	12
HK\$1,000,001 to HK\$1,500,000	—	—
HK\$1,500,001 to HK\$2,000,000	2	—
	11	12

No director waived the right to receive emoluments during the year.

Notes to the Financial Statements

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Continued)*

(b) Details of the five highest paid individuals' emoluments are set out below:

Of the five highest paid individuals of the Group, two (2000: two) are directors of the Company whose emoluments are included above. The emoluments of the remaining three (2000: three) individuals are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,190	1,230
Pension scheme contributions	6	3
Bonus paid and payable	<u>—</u>	<u>—</u>
	<u>2,196</u>	<u>1,233</u>

Benefits in kind represent the estimated monetary value of accommodation and other benefits provided to the directors and employees of the Company.

The emoluments of the remaining three (2000: three) individuals are within the following band:

	Number	
	2001	2000
Up to HK\$1,000,000	<u>3</u>	<u>3</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

Notes to the Financial Statements

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax or overseas taxation has been made in the financial statements as the companies within the Group had no assessable profits for the year ended 31st December, 2001 in the respective jurisdictions in which the entities operate.

The amount of unprovided deferred tax expenditures of the Group for the year is as follows:

	2001	2000
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	128	271
Decrease in tax losses	1,893	11,026
	<u>2,021</u>	<u>11,297</u>

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$125,890,000 (2000: HK\$9,918,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31st December, 2001 (2000: Nil) and the Company did not pay any interim dividend during the year.

11. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$35,110,000 (2000: HK\$16,912,000), divided by the weighted average number of ordinary shares outstanding during the year of 1,263,634,000 shares (2000: 625,153,869 shares).

No diluted loss per share information is presented as the effect of the assumed conversion of the potential ordinary shares outstanding is anti-dilutive.

Notes to the Financial Statements

12. FIXED ASSETS

The movements of fixed assets of the Group are as follows:

	Investment property HK\$'000	Land use rights and buildings HK\$'000	Leasehold improve- ments, fixture and fittings HK\$'000	Furniture and equipment HK\$'000	Game equipment HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation								
Beginning of year	2,800	7,567	16,414	1,747	60,802	5,670	2,903	97,903
Additions	-	-	468	33	465	-	295	1,261
Revaluation deficit	(900)	-	-	-	-	-	-	(900)
Disposal	-	-	(22)	-	(74)	-	-	(96)
End of year	<u>1,900</u>	<u>7,567</u>	<u>16,860</u>	<u>1,780</u>	<u>61,193</u>	<u>5,670</u>	<u>3,198</u>	<u>98,168</u>
Representing:								
At cost	-	7,567	16,860	1,780	61,193	5,670	3,198	96,268
At valuation	<u>1,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,900</u>
	<u>1,900</u>	<u>7,567</u>	<u>16,860</u>	<u>1,780</u>	<u>61,193</u>	<u>5,670</u>	<u>3,198</u>	<u>98,168</u>
Accumulated depreciation								
Beginning of year	-	644	13,381	1,277	56,583	663	1,201	73,749
Charge for the year	-	378	387	244	2,256	553	551	4,369
Write-back on disposal	-	-	-	-	(22)	-	-	(22)
End of year	<u>-</u>	<u>1,022</u>	<u>13,768</u>	<u>1,521</u>	<u>58,817</u>	<u>1,216</u>	<u>1,752</u>	<u>78,096</u>
Net book value								
End of year	<u>1,900</u>	<u>6,545</u>	<u>3,092</u>	<u>259</u>	<u>2,376</u>	<u>4,454</u>	<u>1,446</u>	<u>20,072</u>
Beginning of year	<u>2,800</u>	<u>6,923</u>	<u>3,033</u>	<u>470</u>	<u>4,219</u>	<u>5,007</u>	<u>1,702</u>	<u>24,154</u>

All the land use rights of the Group are related to land located in the PRC where no individual land ownership rights exist.

Notes to the Financial Statements

12. FIXED ASSETS (Continued)

The investment property as at 31st December, 2001 was appraised by Chesterton Petty Ltd., independent professional valuers, on 20th March, 2002. The investment property was appraised on an open market value and vacant possession basis and is carried in the balance sheet at open market value. As a result of the appraisal, a decrease in value of the Group's investment property of HK\$900,000 as at 31st December, 2001 (2000: a decrease of HK\$1,417,000) was charged to the consolidated income statement.

As of 31st December, 2001, the investment property has been vacant.

Details of the investment property are as follows:

Description	Approximate gross area	Type/Tenure
Units A, B & C on 23rd Floor No. 77 Sheung On Street Chai Wan, Hong Kong	386 sq. meters	Office building

The investment property is mortgaged as collateral for the long-term borrowing of the Group (see Note 22).

13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	94,802	94,802
Amounts due from subsidiaries	<u>206,020</u>	<u>177,671</u>
	300,822	272,473
Less: Provision for impairment in value	<u>(212,427)</u>	<u>(115,199)</u>
	<u>88,395</u>	<u>157,274</u>

The amounts with subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. The directors consider the amounts due from subsidiaries are not repayable within one year.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying amount of the subsidiaries as at 31st December, 2001.

Notes to the Financial Statements

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries as at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			directly %	indirectly %	
Bluebell Fields Limited	The British Virgin Islands	Ordinary US\$1	100	–	Inactive
Bright Skies Limited	The British Virgin Islands	Ordinary US\$1	100	–	Investment holding
Dawes Investments Limited	The British Virgin Islands	Ordinary US\$1	–	100	Inactive
Hemsby Investments Limited	The British Virgin Islands	Ordinary US\$200	100	–	Investment holding
Kristal Profits Limited	The British Virgin Islands	Ordinary US\$1	–	100	Investment holding
Nara Profits Limited	The British Virgin Islands	Ordinary US\$1	–	100	Investment holding
Upward Trend Profits Limited	The British Virgin Islands	Ordinary US\$1	–	100	Investment holding
Whimsy International Trading Limited	The British Virgin Islands	Ordinary US\$1	–	100	Inactive
Yaohan Whimsy International Limited	The British Virgin Islands	Ordinary US\$1	–	100	Inactive
Asian Rose Holdings Limited	Hong Kong	Ordinary HK\$2	–	100	Property holding and leasing
Global Gold Trading Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Parkwell (Hong Kong) Ltd. (百宏(香港)有限公司)	Hong Kong	Ordinary HK\$2	100	–	Leasing

Notes to the Financial Statements

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			directly %	indirectly %	
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Yaohan Whimsy Co., Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$1,000	–	100	Investment holding
*成都歡樂天地有限公司 (Chengdu Happy World Co., Limited)	Chengdu, the PRC	RMB10,000,000	–	97	Operation of indoor entertainment centre
*河南歡樂天地兒童遊樂 有限公司 (Henan Whimsy Amusement Company Limited)	Henan, the PRC	US\$2,000,000	–	100	Operation of indoor entertainment centre
*上海歡樂天地兒童遊樂 有限公司 (Shanghai Whimsy Amusement Co., Limited)	Shanghai, the PRC	US\$3,000,000	–	90	Operation of indoor entertainment centre
△瀋陽遼華汽車車橋 有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.)	Shenyang, the PRC	RMB30,000,000	–	51	Manufacture of automobile axles
*蘇州運時家庭 電子娛樂有限公司 (Suzhou Whimsy Family Electronic Recreation Co., Limited)	Suzhou, the PRC	US\$1,050,000	–	95	Operation of indoor entertainment centre
*無錫歡樂天地遊樂 有限公司 (Wuxi Whimsy Amusement Co., Limited)	Wuxi, the PRC	US\$2,720,000	–	95	Operation of indoor entertainment centre

Notes to the Financial Statements

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			directly %	indirectly %	
Whimsy Japan Company Limited	Japan	Ordinary YEN 10,000,000	-	100	Inactive
Whimsy USA, Inc.	United States of America	Ordinary US\$10	100	-	Inactive

* These subsidiaries are Sino-foreign co-operative joint ventures.

△ This subsidiary is a Sino-foreign equity joint venture.

The deferred shares, which are not held by the Group, practically carry no rights to dividends, to receive notice of, to attend or vote at any general meeting of the respective companies, and to participate in any distribution on winding up.

None of the subsidiaries had any loan capital outstanding as at 31st December, 2001 or at any time during the year.

14. INVENTORIES

	The Group	
	2001 HK\$'000	2000 HK\$'000 (Note 28)
Plush toys	408	424
Spare parts and other consumables	619	660
Automobile axles	-	488
	<u>1,027</u>	<u>1,572</u>

Approximately HK\$619,000 (2000: HK\$811,000) of the above inventories are stated at net realisable value.

Notes to the Financial Statements

15. OTHER RECEIVABLES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Other receivables	9,045	1,729	2,383	510
Less: Provision for doubtful debts	(6,000)	—	—	—
	<u>3,045</u>	<u>1,729</u>	<u>2,383</u>	<u>510</u>

16. ACCOUNTS RECEIVABLE

The balances resulted from the sales of automobile axles, which were on an average credit period of 90 days.

The aging analysis of the accounts receivable of the Group as at 31st December, 2001 is as follows:

	2001 HK\$'000	2000 HK\$'000
0 – 90 days	—	272
Over 90 days	2,805	2,776
	<u>2,805</u>	<u>3,048</u>
Less: Provision for doubtful debts	(2,805)	—
	<u>—</u>	<u>3,048</u>

17. CASH AND CASH EQUIVALENTS

As at 31st December, 2001, the cash and cash equivalents of the Group denominated in Chinese Renminbi (“RMB”) amounted to approximately HK\$18,230,000 (2000: HK\$25,405,000). RMB is not freely convertible into foreign currencies. Subject to the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Notes to the Financial Statements

18. ACCOUNTS PAYABLE

The aging analysis of the accounts payable of the Group as at 31st December, 2001 is as follows:

	2001 HK\$'000	2000 HK\$'000
0 – 90 days	227	124
Over 90 days	462	476
	<u>689</u>	<u>600</u>

19. SHARE CAPITAL

	2001		2000	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised	<u>3,000,000,000</u>	<u>300,000</u>	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid	<u>1,263,634,000</u>	<u>126,363</u>	<u>1,263,634,000</u>	<u>126,363</u>

On 21st July, 2000, the issued share capital was increased to HK\$48,363,400 by the issuance of 80,592,000 new ordinary shares at a price of HK\$0.30 per share and the Company raised net proceeds of approximately HK\$24 million.

By a special resolution passed on 5th October, 2000, the authorised share capital was increased from HK\$80,000,000 to HK\$300,000,000 by the creation of 2,200,000,000 ordinary shares of HK\$0.10 each.

On 5th October, 2000, the issued share capital was increased to HK\$126,363,400 by the issuance of 780,000,000 new ordinary shares at a price of HK\$0.30 per share and the Company raised net proceeds of approximately HK\$231 million.

Notes to the Financial Statements

19. SHARE CAPITAL (Continued)

Movements in share capital during the year are as follows:

	Shares		Amount	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Beginning of year	1,263,634,000	403,042,000	126,363	40,304
Share capital issued during the year	–	860,592,000	–	86,059
End of year	<u>1,263,634,000</u>	<u>1,263,634,000</u>	<u>126,363</u>	<u>126,363</u>

20. SHARE OPTIONS

Under the terms of the Share Option Scheme which became effective on 15th March, 1995, the Board of Directors of the Company may offer to executive directors and certain employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company.

A summary of the movements of share options granted under the Share Option Scheme is as follows:

	Number of share options		
	HK\$0.690	HK\$0.382	Total
Beginning of year	40,000,000	86,300,000	126,300,000
Granted during the year	–	–	–
Exercised during the year	–	–	–
Cancelled/lapsed during the year	–	–	–
End of year	<u>40,000,000</u>	<u>86,300,000</u>	<u>126,300,000</u>

Notes to the Financial Statements

21. SHARE PREMIUM AND RESERVES

(a) The Group

	Share premium HK\$'000	Reserves		Total HK\$'000
		Translation reserve HK\$'000	Accumulated deficit HK\$'000	
At 1st January, 2000	91,409	(2,237)	(140,540)	(51,368)
Premium on issuance of ordinary shares	169,183	–	–	169,183
Loss for the year	–	–	(16,912)	(16,912)
Exchange difference arising from translation of financial statements of overseas subsidiaries	–	(79)	–	(79)
At 31st December, 2000	260,592	(2,316)	(157,452)	100,824
Loss for the year	–	–	(35,110)	(35,110)
At 31st December, 2001	<u>260,592</u>	<u>(2,316)</u>	<u>(192,562)</u>	<u>65,714</u>

(b) The Company

	Share premium HK\$'000	Reserves		Total HK\$'000
		Contributed surplus HK\$'000	Accumulated deficit HK\$'000	
At 1st January, 2000	91,409	94,601	(156,400)	29,610
Premium on issuance of ordinary shares	169,183	–	–	169,183
Loss for the year	–	–	(9,918)	(9,918)
At 31st December, 2000	260,592	94,601	(166,318)	188,875
Loss for the year	–	–	(125,890)	(125,890)
At 31st December, 2001	<u>260,592</u>	<u>94,601</u>	<u>(292,208)</u>	<u>62,985</u>

Notes to the Financial Statements

21. SHARE PREMIUM AND RESERVES (Continued)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31st December, 2001 (2000: Nil).

22. BORROWING

The borrowing of the Group represents a mortgage loan which bears interest at the Hong Kong dollar prime rate plus 1% per annum and is repayable by 84 monthly installments. The mortgage loan is secured by an investment property with an estimated open market value of HK\$1,900,000 (2000: HK\$2,800,000) and a personal guarantee provided by a director of a subsidiary.

	2001 HK\$'000	2000 HK\$'000
The maturity of the borrowing is as follows:		
Within one year	348	290
More than one year but not exceeding two years	370	322
More than two years but not exceeding five years	<u>1,146</u>	<u>1,197</u>
Total within five years	1,864	1,809
More than five years	<u>–</u>	<u>362</u>
	1,864	2,171
Less: Amounts due within one year shown under current liabilities	<u>(348)</u>	<u>(290)</u>
Amounts due after one year	<u><u>1,516</u></u>	<u><u>1,881</u></u>

Notes to the Financial Statements

23. DEFERRED TAXATION

As at 31st December, 2001, the major components of the deferred taxation liabilities (assets) for which no provision has been made in the financial statements are as follows:

	2001	2000
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	242	114
Tax losses carried forward	(801)	(2,694)
	<u>(559)</u>	<u>(2,580)</u>

No recognition of the deferred tax asset has been made in the financial statements as the related benefits are not expected to crystallise in the foreseeable future.

24. RELATED PARTY TRANSACTIONS

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) Amount due from and amount due to a related company are unsecured, non-interest bearing and are repayable on demand.
- (b) During the year, the Group entered into the following significant transactions with related parties:

	2001	2000
	HK\$'000	HK\$'000
Interest income from a related company	398	95
Interest expense on loan from a shareholder	–	2,089
Purchases from a related company of a joint venture partner	–	9,364
	<u>–</u>	<u>9,364</u>

The above transactions were carried out after negotiations between the Group and the related companies in the ordinary course of business and on the basis of estimated market value as determined by the directors.

- (c) A personal guarantee was provided by a director of a subsidiary to enable the subsidiary to obtain a mortgage loan from a third party (Note 22).

Notes to the Financial Statements

25. COMMITMENTS AND CONTINGENCY

(a) Capital commitments

On 3rd January, 2001 (the "Effective Date"), the Company entered into an agreement with the Trustees of Columbia University in the City of New York ("Columbia"), pursuant to which Columbia is to conduct research in the field of antigen/antibody microarrays for use in immunological diagnostic and functional genomic applications. The Company would have exclusive rights of the results of the said research. In exchange, the Company is to provide financial support for the said research.

The Company has the right to exercise early termination in the first eighteen months after the Effective Date, upon six months written notice to Columbia.

Capital commitments in respect of the above agreement outstanding as at 31st December, 2001 not provided for in the financial statements of the Group and the Company are summarised as follows:

	The Group and the Company	
	2001	2000
	HK\$'000	HK\$'000
Contracted for	14,155	–
Authorised but not contracted for	–	–
	<u>14,155</u>	<u>–</u>

(b) Lease commitments

As at 31st December 2001, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
		(Note 28)
Within one year	2,279	3,009
After one year but within five years	2,595	5,982
After five years	–	159
	<u>4,874</u>	<u>9,150</u>

The operating lease commitments in respect of certain rented premises are subject to an additional premium based on a fixed percentage of the annual gross turnover and receipts in excess of a specific minimum rental amount.

Notes to the Financial Statements

25. COMMITMENTS AND CONTINGENCY (Continued)

(c) Contingency

The Company provides for potential individual income taxes, related fines and penalties based on management's best estimate. While management believes the possibility is remote, additional fines and penalties may be payable by the Company depending on the outcome of negotiations with the relevant tax authorities.

26. RETIREMENT BENEFITS SCHEME

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective province to fund the benefits (see Note 2(s) for details). The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month.

The retirement benefit scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31st December, 2001, the Group's contributions were approximately HK\$584,000 (2000: HK\$497,000). There was no (2000: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there is no (2000: Nil) material forfeited contribution available to reduce the Group's contribution payable in future periods.

27. BANKING FACILITIES

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Bank borrowings (Note 22)	1,864	2,171
Other banking facilities (i)	500	–
	<u>2,364</u>	<u>2,171</u>

- (i) As at 31st December, 2001, a subsidiary of the Group had aggregate banking facilities of HK\$500,000 (2000: Nil), all of them remained unutilised. The facilities are secured by bank deposits of HK\$500,000 (2000: Nil).

Notes to the Financial Statements

28. COMPARATIVE FIGURES

The adoption of SSAP 14 (revised) and SSAP 26 by the Group has resulted in changes to the presentation of various items and the 2000 comparative figures have been restated accordingly.

In addition, certain of the 2000 comparative figures have been reclassified to conform to the current year's presentation.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements (set out on pages 22 to 57) were approved and authorised for issue by the Board of Directors on 25th April, 2002.