Notes on the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(j)).

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with Note 1 (e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investment in a jointly controlled entity is stated at cost less impairment losses (see Note1(j)).

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

(i) for acquisitions before 1st January, 2001, positive goodwill is written off to contributed surplus and is reduced by impairment losses (see Note 1(j)); and

(ii) for acquisitions on or after 1st January, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(j)).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see Note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquistions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

(i) for acquisitions before 1st January, 2001, negative goodwill is credited to capital reserve; and

(ii) for acquisitions on or after 1st January, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

(a) for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

(b) for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on the Group reserves is included in the calculation of the profit or loss on disposal.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in securities

The Group's policy for investments in securities other than investments in subsidiaries, associates and jointly controlled entities is as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iv) Profits and losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Interest in partnership

Interest in partnership is stated at cost less provision, where appropriate, together with profits less losses attributable to the Group.

(h) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following basis:

(a) investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;

(b) land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)); and

(c) plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Fixed assets *(Continued)*

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

(a) when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and

(b) when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the profit and loss account.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

(i) Depreciation and amortisation

(i) No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is provided on the then carrying amount of investment properties with an unexpired lease term of 20 years or less on a straight-line basis over the remaining term of the lease.

(iii) Depreciation is provided on the cost of leasehold land and buildings over 50 years or the remaining terms of the respective leases, if shorter.

(iv) Depreciation is provided on the written down value of other fixed assets at the following rates:

Plant and machinery	—	20% to 25% per annum
Furniture and fixtures	—	20% to 25% per annum
Moulds and tools	—	10% to 30% per annum
Vehicles and pleasure craft	—	30% per annum

(v) Amortisation of patents is charged to the profit and loss account on a straight-line basis over its estimated useful life of five years.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

(i) property, plant and equipment (other than properties carried at revalued amounts);

(ii) investments in subsidiaries, associates and jointly ventures;

(iii) intangible assets; and

(iv) positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill)

(i) Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see Note 1(i)) and impairment losses (see Note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(l) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nautre and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(r)(ii).

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the FIFO cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Land held for resale

Land held for resale is stated at the lower of specific identified cost and estimated net realisable value.

(o) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

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

(ii) Rental income from operating leases

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

(iii) Dividends

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

(b) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

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

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results and balance sheet items of foreign enterprises are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(t) Retirement costs

The retirement costs charged to the profit and loss account represent the amount of employer's contributions payable to the Group's defined contribution pension schemes.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

(u) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

Notes on the Financial Statements *(Continued)*

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

Turnover represents the invoiced value of goods sold, less returns, to third parties, rental income and investment income and is analysed as follows:

	2001	2000
	HK$'000	*HK$'000*
Sale of goods	**402,927**	281,414
Rental income	**27,385**	29,501
Investment income	**325**	9,051
	430,637	319,966

3. OTHER REVENUE AND NET INCOME

	2001	2000
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income	**880**	1,969
Air conditioning, management and maintenance service charges from tenants	**4,310**	3,332
Subcontracting income	**1,051**	4,629
Service income	**2,304**	1,759
Others	**1,195**	848
	9,740	12,537
(b) Other net income		
Unrealised gain on revaluation of investment in Squaw Creek Associates *(Note 15)*	**3,288**	31,449
Revaluation surplus/(deficit) on investment properties *(Note 11)*	**3,285**	(3,285)
Net (loss)/gain on sale of fixed assets	**(2)**	82
Net exchange (loss)/gain	**(407)**	1,376
Unrealised loss on listed investments	**(184)**	(363)
Loss from partnership	**(1,337)**	(1,619)
	4,643	27,640

4. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2001	2000
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances repayable within 5 years	**19,899**	23,013
Interest on advances from directors	**3,568**	4,551
Interest on advances from shareholders	**3,222**	3,821
Interest on amounts due to related parties/related companies	**326**	445
Interest on other loans	**4,334**	2,763
Finance charges on obligations under finance leases	**41**	18
	31,390	34,611
(b) Other items		
Cost of inventories	**296,747**	209,370
Amortisation of intangible assets	**2,496**	2,496
Depreciation		
— owned assets	**17,320**	15,367
— assets held under finance leases	**208**	39
Auditors' remuneration	**1,676**	1,614
Operating lease charges		
— rental on land and buildings	**11,690**	11,528
— other rental	**281**	294
Employer's contributions to pension scheme, net of forfeited contributions of HK$335,000 *(2000: HK$424,000) (Note 29)*	**2,554**	2,312
Provision for land held for resale	**2,203**	13,000
Gain on disposal of listed investments	**(160)**	(208)
Dividend income from listed investments	**(1)**	(1)
Dividend income from unlisted investments	**(8)**	(5,643)
Gross rental income from investment properties less direct outgoings of HK$4,142,000 *(2000: HK$3,538,000)*	**(23,261)**	(25,964)

Cost of inventories includes HK$33,782,000 *(2000: HK$33,015,000)* relating to staff costs, depreciation charges and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the profit and loss account for each of these types of expenses.

Notes on the Financial Statements *(Continued)*

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2001	2000
	HK$'000	*HK$'000*
(i) Executive directors		
Fees	**80**	160
Other emoluments		
Salaries and other benefits	**2,699**	4,375
Pension scheme contributions	**115**	176
	2,814	4,551
	2,894	4,711
(ii) Non-executive directors		
Fees	**80**	85
Other emoluments		
Salaries and other benefits	**334**	334
Pension scheme contributions	**33**	33
	367	367
	447	452

The above emoluments also included the gains on exercise of share options granted to directors under the Company's share option scheme. The details are disclosed under the paragraph "Share Option Scheme" in the directors' report.

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The directors' emoluments were within the following bands:

	2001 Number of directors	2000 Number of directors
HK$Nil to HK$1,000,000	**5**	6
HK$1,000,001 to HK$1,500,000	**—**	1
HK$1,500,001 to HK$2,000,000	**1**	1

(b) Employees' emoluments

During the year ended 31st December, 2001, the five highest paid individuals included one director *(2000: two directors)*, details of whose emoluments are set out in Note 5(a). The emoluments of the remaining individuals, excluding commissions on sales generated by the employees, are as follows:

	2001 *HK$'000*	2000 *HK$'000*
Salaries and other benefits	**3,935**	3,116
Bonus	**109**	177
	4,044	3,293

Their emoluments were within the following bands:

	2001 Number of employees	2000 Number of employees
HK$Nil to HK$1,000,000	**2**	—
HK$1,000,001 to HK$1,500,000	**2**	3

6. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2001	2000
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax		
— at 16% *(2000: 16%)* on the estimated assessable profits for the year	**700**	273
— over provision in respect of prior years	**(36)**	—
	664	273
Overseas taxation	**13,276**	2,317
Deferred taxation *(Note 6(c))*	**839**	(825)
	14,779	1,765

In 2001, the US Internal Revenue Service completed an audit of a US subsidiary of the Group. As a result of the audit, the Group has accrued approximately US$1.3 million (HK$10 million) of withholding taxes on intercompany interest payments. This amount is included in the overseas tax charge for 2001.

(b) Tax (recoverable)/payable in the consolidated balance sheet represents:

	2001	2000
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax on the estimated assessable profits for the year	**700**	273
Provisional profits tax paid	**(272)**	(1,363)
	428	(1,090)
Overseas tax payable/(recoverable)	**8,853**	(984)
	9,281	(2,074)
Representing:		
Tax recoverable	**(1,477)**	(2,300)
Tax payable	**10,758**	226
	9,281	(2,074)

6. TAXATION *(Continued)*

(c) Deferred taxation

	2001	2000
	HK$'000	*HK$'000*
At 1st January	**6,642**	5,899
Through acquisition of subsidiaries	**—**	(82)
Exchange adjustments	**6**	—
Transferred (to)/from profit and loss account *(Note 6(a))*	**(839)**	825
At 31st December	**5,809**	6,642
Representing:		
Deferred tax recoverable	**5,819**	6,828
Deferred tax payable	**(10)**	(186)
	5,809	6,642

The major components of the recognised net deferred tax debits are:

	2001	2000
	HK$'000	*HK$'000*
Tax effect on timing differences arising from:		
Depreciation allowances in excess of related depreciation	**(10)**	(484)
Provisions and allowances	**1,263**	2,279
Future benefit of tax losses	**1,873**	5,021
Others	**2,683**	(174)
	5,809	6,642

Notes on the Financial Statements *(Continued)*

6. TAXATION *(Continued)*

(c) Deferred taxation *(Continued)*

At 31st December, 2001, the major components of the Group's unrecognised net deferred tax debits are:

	2001	2000
	HK$'000	*HK$'000*
Depreciation allowances in excess of related depreciation	**(18,486)**	(16,365)
Future benefit of tax losses	**28,793**	34,938
	10,307	18,573

Surpluses arising on revaluation of investment properties do not constitute a timing difference and tax thereon has therefore not been quantified.

(d) No provision for taxation has been made in the Company's balance sheet as the Company incurred an adjusted loss for tax purposes during the year.

7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a loss of HK$74,883,000 *(2000 (restated): HK$18,859,000)* which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2001	2000
	HK$'000	*HK$'000*
Amount of consolidated (loss)/profit attributable to shareholders dealt with in the Company's financial statements	**(74,883)**	(18,859)
Final dividend from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	**13,945**	22,260
Company's (loss)/profit for the year *(Note 26)*	**(60,938)**	3,401

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK$24,890,000 *(2000: profit HK$5,032,000)* and the weighted average of 665,254,000 ordinary shares *(2000: 663,385,000 shares)* in issue during the year.

(b) Diluted (loss)/earnings per share

The diluted loss per share for 2001 is not presented as the Company's potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share.

The calculation of diluted earnings per share for 2000 is based on the profit attributable to ordinary shareholders of HK$5,032,000 and the weighted average number of ordinary shares of 665,127,000 shares after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliation

	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings for share	663,385,000
Deemed issue of ordinary shares for no consideration	1,742,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	665,127,000

Notes on the Financial Statements *(Continued)*

9. CHANGES IN ACCOUNTING POLICIES

(a) Dividends

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1st January, 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in case of interim dividends) or approved by the shareholders (in case of final dividends). Consequently, dividend income from subsidiaries, associates and jointly controlled entities is recognised as income in the Company's profit and loss account in the accounting period in which the right to receive the dividend has been established.

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information of the Company adjusted for the amounts relating to prior periods (see Note 7 and 26). There is no impact on the Group's net assets and profit attributable to shareholders for the periods presented.

(b) Goodwill and impairment of assets

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was written off to contributed surplus or credited to capital reserve respectively.

With effect from 1st January, 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP 30") and 31 issued by the Hong Kong Society of Accountants, the Group adopted new accounting policies for goodwill and impairment of assets as set out in Note 1(e) and (j) respectively.

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy on goodwill has been adopted prospectively and no adjustments have been made to the opening balances of retained profits and reserves and comparative information, except for the recognition of the impairment losses in respect of goodwill written off against reserves which has been treated as a change in accounting policy and has been adopted retrospectively.

As a result of the new accounting policy on impairment of assets, the Group's retained earnings have been decreased by HK$86,325,000, with the contributed surplus being increased by the same amount. Hence, there is no impact on the Group's net assets nor profit attributable to shareholders for the periods presented. The new accounting policy on impairment of assets in respect of goodwill written off against reserves has been adopted retrospectively, with the opening balance of retained profits and contributed surplus and the comparative information adjusted for the amounts relating to prior periods.

10. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Toys and model trains:	The manufacture and sale of plastic, electronic and stuffed toys and model trains.
Property leasing:	The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long term.
Investment holding and trading:	The investment in partnership and trading of listed securities.

	Toys and model trains		Property leasing		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**400,574**	281,105	**27,385**	29,501	**325**	9,051	**2,353**	309	**—**	—	**430,637**	319,966
Inter-segment revenue	**—**	—	**687**	687	**—**	—	**—**	—	**(687)**	(687)	**—**	—
Other revenue from external customers	**2,087**	5,474	**4,319**	3,333	**—**	2	**2,454**	1,759	**—**	—	**8,860**	10,568
Total	**402,661**	286,579	**32,391**	33,521	**325**	9,053	**4,807**	2,068	**(687)**	(687)	**439,497**	330,534
Segment result	**4,185**	(26,063)	**23,681**	7,956	**(34)**	32,426	**(4,059)**	(12,970)	**—**	—	**23,773**	1,349
Inter-segment transactions	**387**	687	**1,522**	785	**(1,909)**	(1,472)	**—**	—	**—**	—	**—**	—
Contribution from operations	**4,572**	(25,376)	**25,203**	8,741	**(1,943)**	30,954	**(4,059)**	(12,970)	**—**	—	**23,773**	1,349
Unallocated operating income and expenses											**(459)**	432
Profit from operations											**23,314**	1,781
Finance costs											**(31,390)**	(34,611)
Share of (loss)/profit of associates					**(2,035)**	39,627					**(2,035)**	39,627
Taxation											**(14,779)**	(1,765)
(Loss)/profit attributable to shareholders											**(24,890)**	5,032
Depreciation and amortisation for the year	**14,325**	12,490	**1,608**	1,458	**—**	—	**4,091**	3,954	**—**	—	**20,024**	17,902

Notes on the Financial Statements *(Continued)*

10. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property leasing		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**330,896**	308,884	**448,452**	438,375	**95,892**	94,986	**423,412**	418,416	**(405,113)**	(396,656)	**893,539**	864,005
Interest in associates					**94,928**	186,329					**94,928**	186,329
Unallocated assets											**99,474**	9,128
Total assets											**1,087,941**	1,059,462
Segment liabilities	**294,241**	279,308	**189,437**	189,527	**57,330**	53,325	**355,520**	336,810	**(405,113)**	(396,656)	**491,415**	462,314
Unallocated liabilities											**102,302**	89,841
Total liabilities											**593,717**	552,155
Capital expenditure incurred during the year	**22,043**	21,707										

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and China is a major market for the Group's toys and model trains and property investment, and it is the location of most of its toys and model trains manufacturing. Toys and model trains are also sold to North America. The Group also has investment and investment properties in North America. In Europe and other locations, the major business is sale of toys and model trains.

In presenting information on the basis of geographical segments, segment revenue and profit from operations are based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong and China		North America		Europe		Others	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**192,653**	103,526	**145,709**	138,951	**82,696**	72,900	**9,579**	4,589
Profit from operations	**8,649**	(28,639)	**7,108**	28,937	**7,405**	2,108	**152**	(625)
Segment assets	**1,008,390**	997,641	**209,494**	173,324	**80,768**	89,696	**—**	—
Capital expenditure incurred during the year	**16,752**	13,586	**4,509**	7,561	**782**	560	**—**	—

11. FIXED ASSETS

The Group

	Land and buildings				Investment properties			
	In Hong Kong	Outside Hong Kong	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1st January, 2001	14,131	23,326	380,214	417,671	341,490	53,505	394,995	812,666
Exchange differences	—	(370)	(416)	(786)	—	—	—	(786)
Additions	—	137	21,906	22,043	—	—	—	22,043
Disposals	—	—	(265)	(265)	—	—	—	(265)
Surplus on revaluation *(Note (b) below)*	—	—	—	—	5,360	9,007	14,367	14,367
At 31st December, 2001	14,131	23,093	401,439	438,663	346,850	62,512	409,362	848,025
Representing:								
Cost	14,131	23,093	401,439	438,663	—	—	—	438,663
Valuation — 2001	—	—	—	—	346,850	62,512	409,362	409,362
	14,131	23,093	401,439	438,663	346,850	62,512	409,362	848,025
Aggregate depreciation:								
At 1st January, 2001	5,283	6,830	294,565	306,678	—	—	—	306,678
Exchange differences	—	(32)	(163)	(195)	—	—	—	(195)
Charge for the year	307	583	15,175	16,065	—	1,463	1,463	17,528
Written back on disposals	—	—	(255)	(255)	—	—	—	(255)
Written back on revaluation *(Note (b) below)*	—	—	—	—	—	(1,463)	(1,463)	(1,463)
At 31st December, 2001	5,590	7,381	309,322	322,293	—	—	—	322,293
Net book value:								
At 31st December, 2001	8,541	15,712	92,117	116,370	346,850	62,512	409,362	525,732
At 31st December, 2000	8,848	16,496	85,649	110,993	341,490	53,505	394,995	505,988

11. FIXED ASSETS *(Continued)*

(a) Land and buildings comprise:

	2001	2000
	HK$'000	*HK$'000*
At net book value:		
In Hong Kong		
Medium-term leases	**8,541**	8,848
Freehold outside Hong Kong	**15,712**	16,496

(b) Investment properties comprise:

	2001	2000
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	**346,850**	341,490
Outside Hong Kong		
Short-term leases	**14,000**	8,780
Medium-term leases	**34,841**	30,476
Freehold	**13,671**	14,249
	62,512	53,505

The investment properties of the Group were revalued at 31st December, 2001 by Surpass Company Limited and Johnston, Ross & Cheng Limited, external professional valuers, on an open market basis, by either assuming sale with the benefit of immediate vacant possession by reference to comparable sales evidence as available on the market, or otherwise, by capitalising the net rental incomes derived from the existing tenancies with due allowance for reversionary potential of the property.

Out of the HK$15,830,000 net revaluation surplus in 2001, HK$12,545,000 has been credited to the investment properties revaluation reserve (Note 26). The remaining balance of HK$3,285,000 has been credited to the profit and loss account. In 2000, HK$12,150,000 net revaluation deficit was deducted from the investment properties revaluation reserve (Note 26) and the remaining balance of HK$3,285,000 was debited to the profit and loss account.

11. FIXED ASSETS *(Continued)*

(c) Equipment comprises plant and machinery, furniture and fixtures, moulds and tools, vehicles and pleasure craft.

(d) The Group leases production plant and machinery under finance leases expiring in three years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. The net book value of fixed assets included an amount of HK$1,644,000 *(2000: HK$116,000)* in respect of assets held under finance leases.

(e) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of the investment properties of the Group held for use in operating leases were HK$409,362,000 *(2000: HK$394,995,000)*.

The Group's total future lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Within 1 year	**21,800**	18,638
After 1 year but within 5 years	**13,292**	23,305
	35,092	41,943

12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**244,819**	244,819
Add: Amounts due from subsidiaries	**567,837**	495,102
Less: Impairment losses	**(237,863)**	(164,107)
	574,793	575,814

Details of the major subsidiaries at 31st December, 2001 which principally affect the results or assets of the Group are shown on pages 72 and 73.

13. INTEREST IN ASSOCIATES

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**35,435**	37,019
Amounts due from associates	**59,493**	149,310
	94,928	186,329

Details of the major associates at 31st December, 2001, which principally affect the results or assets of the Group, are as follows:

Name of associates	Place of incorporation and operation	Proportion of ownership interest held directly	Proportion of ownership interest held indirectly	Principal activities
Allman Holdings Limited	British Virgin Islands	—	50%	Investment holding
Melville Street Trust Company Limited	Canada	—	27.3%	Property investment

In addition to the Group's interest in Squaw Creek Associates ("Squaw Creek") held under investments (see note 15), Allman Holdings Limited ("Allman") has an interest in this entity. Similar to the Group, Allman's interest in Squaw Creek has been stated at market value in equity accounting for Allman's results. The valuation of the resort owned by Squaw Creek was performed by an independent firm of professional valuers using an income capitalisation approach at 31st December, 2001 and the resultant unrealised loss on revaluation attributable to Allman was HK$2,569,000 *(2000: unrealised gain HK$86,186,000)*. Of this loss attributable to Allman, the Group's 50% share, amounting to HK$1,285,000 *(2000: gain HK$43,093,000)*, has been reflected in the share of loss of associates in the Group's profit and loss account.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**—**	—		
Unlisted shares, at cost			**68,151**	68,151
Less: Impairment loss			**(68,151)**	(68,151)
	—	—	**—**	—

Details of the Group's interest in a jointly controlled entity are as follows:

Name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held directly	Proportion of ownership interest held indirectly	Principal activity
Jinlong Kader Electric Appliance Company Limited	Incorporated	China	Registered capital US$20,000,000	50%	—	Manufacture of electrical fans

15. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Interest in partnership	**19,067**	20,404
Investment securities		
Unlisted equity securities	**100**	100
Other securities — at market value		
Interest in Squaw Creek Associates	**75,687**	72,399
Equity securities listed in Hong Kong	**94**	276
	75,781	72,675
	94,948	93,179

Squaw Creek Associates ("Squaw Creek") owns and operates a resort in USA. The valuation of the resort owned by Squaw Creek was performed by an independent firm of professional valuers using an income capitalisation approach at 31st December, 2001. The related share of the unrealised gain on revaluation attributable to the Group of HK$3,288,000 *(2000: HK$31,449,000)* has been reflected in the Group's profit and loss account for the year. A further interest in Squaw Creek is also held via an associate and details are given in Note 13.

16. INTANGIBLE ASSETS

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Patents acquired		
Cost at 1st January and 31st December	**12,464**	12,464
Accumulated amortisation		
At 1st January	**7,472**	4,976
Charge for the year	**2,496**	2,496
At 31st December	**9,968**	7,472
Net book value	**2,496**	4,992

17. CURRENT INVESTMENTS

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Trading securities — at market value		
Equity securities listed in Hong Kong	**160**	249

18. INVENTORIES

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**58,817**	46,736
Work in progress	**5,855**	11,918
Finished goods	**92,067**	93,540
	156,739	152,194

The amount of inventories (included above) carried at net realisable value is HK$6,215,000 *(2000: HK$17,057,000)*. In addition, finished goods inventories are stated net of a general provision of HK$1,560,000 *(2000: HK$2,340,000)* made in order to state those inventories at the lower of cost and estimated net realisable value.

Finished goods inventories of HK$74,489,000 *(2000: HK$73,149,000)* were pledged to banks to secure banking facilities granted to the Group. This amount is also included in Note 23.

19. LAND HELD FOR RESALE

Land held for resale is stated at estimated net realisable value. An agreement was made to sell the land subsequent to the year end *(see Note 31)*.

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Debtors and prepayments	**73,742**	64,518	**14**	79
Amount due from an associate	**92,178**	—	**—**	—
Amount due from a related party	**300**	300	**—**	—
	166,220	64,818	**14**	79

The amount due from an associate is interest bearing at prime plus 1% and has been settled subsequent to the year end.

The amount due from a related party is unsecured, interest free and with no fixed repayment terms.

All trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debtors (net of specific allowance for bad and doubtful debts) with the following ageing analysis:

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current	**51,907**	38,836	**—**	—
1 to 3 months overdue	**5,435**	7,418	**—**	—
More than 3 months overdue but less than 12 months overdue	**858**	1,718	**—**	—
More than 12 months overdue	**1,053**	—	**—**	—
	59,253	47,972	**—**	—

Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

Notes on the Financial Statements *(Continued)*

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001	2000	**2001**	2000 Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount due to an associate	**91,533**	—	**—**	—
Amounts due to directors	**8,097**	4,528	**—**	—
Amounts due to shareholders	**3,672**	1,281	**—**	—
Amounts due to related companies	**3,789**	3,523	**—**	—
Amounts due to related parties	**2,130**	2,130	**—**	—
Creditors and accrued charges	**41,872**	39,689	**582**	605
Rental deposits	**2,247**	3,818	**—**	—
Amounts due to subsidiaries	**—**	—	**307,851**	243,515
	153,340	54,969	**308,433**	244,120

The amount due to an associate is interest bearing at prime and has been settled subsequent to the year end.

Amounts due to directors, HK$2,672,000 *(2000: HK$1,281,000)* of amounts due to shareholders represent interest on advances from them included under non-current interest-bearing borrowings *(Note 22)* and are repayable semi-annually or monthly.

HK$1,000,000 of amount due to shareholders, representing advances from shareholders during the year, is unsecured, interest bearing at 7% per annum and has no fixed term of repayment.

Amounts due to related companies and related parties are unsecured, interest free and have no fixed term of repayment.

All trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Due within 1 month or on demand	**4,204**	7,392
Due after 1 month but within 3 months	**6,259**	7,847
Due after 3 months but within 6 months	**273**	129
Due after 6 months but within 12 months	**82**	20
	10,818	15,388

22. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group	
	2001	2000
	HK$'000	*HK$'000*
Bank loans *(Note 23)*	**51,182**	67,497
Advances from directors	**49,554**	49,554
Advances from shareholders	**45,306**	45,306
Amounts due to related companies	**4,585**	5,030
Amount due to a related party	**151**	205
Amount due to an associate	**—**	89,429
	150,778	257,021

Amounts due to directors, shareholders, related companies, related party and associate are unsecured, interest bearing at 7% or prime less 0.5% to prime plus 2% and repayable after 31st December, 2002.

Notes on the Financial Statements *(Continued)*

23. BANK LOANS AND OVERDRAFTS

At 31st December, 2001, the bank loans and overdrafts were repayable as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year or on demand	**269,845**	231,801	**—**	4,842
After 1 year but within 2 years	**16,283**	24,546	**—**	—
After 2 years but within 5 years	**24,907**	29,093	**—**	—
After 5 years	**9,992**	13,858	**—**	—
	51,182	67,497	**—**	—
	321,027	299,298	**—**	4,842

At 31st December, 2001, the bank loans and overdrafts were secured as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts				
— secured	**52,509**	32,004	**—**	—
— unsecured	**22,698**	9,489	**—**	—
	75,207	41,493	**—**	—
Bank loans				
— secured	**204,857**	213,738	**—**	—
— unsecured	**40,963**	44,067	**—**	4,842
	245,820	257,805	**—**	4,842
	321,027	299,298	**—**	4,842

At 31st December, 2001, certain investment properties, leasehold land and buildings and other assets of the Group amounting to HK$686,077,000 *(2000: HK$560,482,000)* were mortgaged to various banks to secure banking facilities granted to the Group.

24. OBLIGATIONS UNDER FINANCE LEASES

At 31st December 2001, the Group had obligations under finance leases repayable as follows:

	2001 Present value of minimum lease payments *HK$'000*	**2001** Interest expenses relating to future periods *HK$'000*	**2001** Total minimum lease payments *HK$'000*	2000 Present value of minimum lease payments *HK$'000*	2000 Interest expenses relating to future periods *HK$'000*	2000 Total minimum lease payments *HK$'000*
Within 1 year	**496**	**101**	**597**	56	11	67
After 1 year but within 2 years	**501**	**57**	**558**	35	4	39
After 2 years but within 5 years	**404**	**14**	**418**	—	—	—
	905	**71**	**976**	35	4	39
	1,401	**172**	**1,573**	91	15	106

25. SHARE CAPITAL

	2001 Number of shares *('000)*	**2001** *HK$'000*	2000 Number of shares *('000)*	2000 *HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1st January	**665,080**	**66,508**	657,213	65,721
Shares issued under share option scheme	**332**	33	7,867	787
At 31st December	**665,412**	**66,541**	665,080	66,508

During the year, 331,478 ordinary shares of HK$0.10 each were issued as a result of the exercise of share options granted under the Company's Employee Share Option Scheme for an aggregate cash consideration of HK$56,351.

There were no share options outstanding at 31st December, 2001.

Notes on the Financial Statements *(Continued)*

26. RESERVES

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investment properties revaluation reserve				
At 1st January	**—**	12,150	**—**	—
Surplus/(deficit) arising on revaluation *(Note 11(b))*	**12,545**	(12,150)	**—**	—
At 31st December	**12,545**	—	**—**	
Exchange reserves				
At 1st January	**(3,408)**	(408)	**—**	—
Net exchange translation differences	**(794)**	(3,000)	**—**	—
At 31st December	**(4,202)**	(3,408)	**—**	—
Contributed surplus				
At 1st January				
— as previously reported	**83,669**	85,866	**175,594**	175,594
— prior period adjustment in respect of impairment loss on goodwill *(Note 9(b))*	**86,325**	86,325	**—**	—
— as restated	**169,994**	172,191	**175,594**	175,594
Goodwill on acquisition of subsidiaries	**—**	(2,197)	**—**	—
At 31st December	**169,994**	169,994	**175,594**	175,594
Capital reserve				
At 1st January and 31st December	**10,867**	10,867	**9,347**	9,347
Share premium				
At 1st January	**109,919**	108,752	**109,919**	108,752
Arising on issue of shares	**23**	1,167	**23**	1,167
At 31st December	**109,942**	109,919	**109,942**	109,919

26. RESERVES *(Continued)*

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue reserves				
At 1st January				
— as previously reported	**239,752**	234,720	**(60,071)**	(55,157)
— prior period adjustments in respect of:				
— dividend income *(Note 9(a))*	**—**	—	**(13,945)**	(22,260)
— impairment loss on goodwill (Note 9(b))	**(86,325)**	(86,325)	**—**	—
— as restated	**153,427**	148,395	**(74,016)**	(77,417)
(Loss)/profit for the year	**(24,890)**	5,032	**(60,938)**	3,401
At 31st December	**128,537**	153,427	**(134,954)**	(74,016)
Total reserves at 31st December	**427,683**	440,799	**159,929**	220,844

26. RESERVES *(Continued)*

Exchange reserves and revenue reserves of the Group are retained as follows:

	The Group			
	Exchange reserves		**Revenue reserves**	
				Restated
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By the Company and its subsidiaries	**(5,189)**	(4,179)	**171,586**	194,441
By associates	**987**	771	**34,394**	36,429
By a jointly controlled entity	**—**	—	**(77,443)**	(77,443)
Total reserves at 31st December	**(4,202)**	(3,408)	**128,537**	153,427

Apart from the above, all other reserves of the Group are retained by the Company and its subsidiaries.

The capital reserve, contributed surplus, exchange reserves and investment properties revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/discount arising on subsidiaries, associates and jointly controlled entities, foreign currency translation and the revaluation of investment properties *(Note 1)*.

The Company's reserves available for distribution to shareholders at 31st December, 2001 are as follows:

	The Company	
	2001	2000
		Restated
	HK$'000	*HK$'000*
Contributed surplus	**175,594**	175,594
Revenue reserves	**(134,954)**	(74,016)
	40,640	101,578

27. OPERATING LEASE COMMITMENTS

At 31st December, 2001, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**10,740**	3,401	**185**	171
After 1 year but within 5 years	**6,287**	3,557	**100**	299
After 5 years	**1,186**	2,075	**—**	—
	18,213	9,033	**285**	470

At 31st December, 2001 and 2000, the Company did not have any commitments under operating leases.

The Group leases a number of properties and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

28. CONTINGENT LIABILITIES

At 31st December, 2001, there were contingent liabilities in respect of the following:

(a) Bills discounted with banks amounting to HK$1,094,000 *(2000: HK$156,000)* for the Group.

(b) Guarantees given to banks to secure banking facilities made available to the following parties:

	The Group		The Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Subsidiaries	**—**	—	**367,640**	358,260

(c) The Company has issued guarantees amounting to HK$23,838,000 *(2000: HK$66,886,000)* to certain wholly owned subsidiaries and also letters of support in connection with some other wholly owned subsidiaries with deficiencies in shareholders' funds of HK$166,448,000 *(2000: HK$150,430,000)* as at 31st December, 2001.

29. PENSION SCHEME

In Hong Kong, the Group has a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1st December, 2000, all Hong Kong based employees are also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme has been modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions are varied with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% to 90% after completion of 5 to 9 years' service.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer. At the balance sheet date, the total amount of forfeited contributions which are available to reduce the contributions payable in the future years was HK$25,000 *(2000: HK$77,000)*.

Employees in the People's Republic of China are covered by a retirement insurance policy.

Employees in United States of America are covered by a profit sharing plan under Section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

30. MATERIAL RELATED PARTY TRANSACTIONS

(a) In 1998, the Group agreed to pay HK$12,464,000 to a company controlled by a director and shareholders of the Company for obtaining the licence to use certain technologies and know-how for the manufacture and sale of car battery products according to an agreement signed in 1996. The amount due to this related company at 31st December, 2001 was HK$4,056,000 *(2000: HK$4,992,000)*.

(b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK$6,167,000 *(2000: HK$3,074,000)* during the year. The amount due to the supplier at the year end amounted to HK$209,000 *(2000: HK$84,000)*.

(c) During the year, certain directors of the Company have entered into a joint and several personal guarantee for not less than HK$39,000,000 *(2000: HK$39,000,000)* in favour of a bank for loans granted to the Company.

(d) During the year, the Group had net interests in both an associate and certain investments amounting to HK$93,451,000 *(2000: HK$94,586,000)* and HK$75,687,000 *(2000: HK$72,399,000)* respectively in which a director of the Company has beneficial interests.

(e) During the year, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in Notes 4, 21 and 22 on the financial statements.

(f) During the year, the Group has provided funding to a related party. Details of the terms of the advances and the balance outstanding are disclosed in Note 20 on the financial statements.

(g) The Group has provided/obtained funding to/from associates. Details of the balances outstanding are disclosed in Notes 13, 20, 21 and 22 on the financial statements.

31. POST BALANCE SHEET EVENT

(a) On 24th January, 2002, the Group entered into an agreement to sell its land held for resale at RMB35,000,000 for cash consideration of RMB30,000,000 and residential units in PRC with a value of RMB5,000,000.

(b) On 21st March, 2002, the Group has entered into a sales and leaseback transaction in respect of certain machinery for an amount of HK$15,000,000.

32. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for dividends and impairment loss, details of which are set out in Note 9.