1 Principal accounting policies

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings.

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

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1 July 2000)
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

The accounting policies below have adopted these new standards.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Group, directly or indirectly, controls its financial and operating policies so as to obtain benefits from its activities.

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

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

1 Principal accounting policies (continued)

(b) Consolidation (continued)

Subsidiaries established in Mainland China adopt 31 December as their accounting year end date pursuant to the local regulations. Accordingly, the management accounts of these subsidiaries as at and for the twelve months ended 31 March have been incorporated in the group accounts after making adjustments as the Directors consider appropriate for compliance with accounting principles generally accepted in Hong Kong.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any related accumulated foreign exchange translation reserve and unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

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

(c) Property, plant and equipment

(i) Leasehold land and buildings

Leasehold land and buildings are stated at fair value, which is determined by the Directors based on independent valuations which are performed every three years, plus subsequent capital expenditures at cost less subsequent accumulated depreciation and provision for impairment in value considered necessary by the Directors.

The professional valuation is performed every three years on an open market basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases in earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases on credited to operating profit up to the amount previously debited. In the intervening years following a professional valuation, the Directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change.

Upon disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuation is transferred from the property revaluations reserve to retained profits and is shown as a movement in reserves.

1 Principal accounting policies (continued)

(c) Property, plant and equipment (continued)

(i) Leasehold land and buildings (continued)

The carrying value of leasehold land and buildings are depreciated on a straight-line basis over the unexpired periods of the leases or their expected useful lives of 50 years to the Group, whichever is shorter.

(ii) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	2-5%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Moulds	20%

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

(iii) Impairment and gain or loss on sale

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

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

1 Principal accounting policies (continued)

(d) Assets under leases

(i) Finances leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

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

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/joint venture/ associated company at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5-10 years.

Goodwill on acquisitions that occurred prior to 1 April 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

(ii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

1 Principal accounting policies (continued)

(f) Other investments

Other investments comprise club memberships and non-trading securities, and are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on a first-in first-out basis, comprises raw materials, direct labour and an appropriate proportion of production expenditures.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses and, where appropriate, the cost of conversion from their existing state to a finished condition.

(h) Accounts receivable

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

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, bank deposits with a maturity of three months or less from date of investment, trust receipt loans and short-term bank loans with maturity of less than three months.

(j) Deferred taxation

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

1 Principal accounting policies (continued)

(k) Translation of foreign currencies

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

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of a foreign subsidiary, the relevant portion of the cumulative exchange differences realised is taken to the profit and loss account as part of the gain and loss on disposal.

(l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Mould income arising from the manufacturing of moulds for customers is recognised upon the completion of the production and delivery of moulds.

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

(m) Retirement benefit costs

The Group has two provident fund scheme arrangements: (a) defined contribution retirement scheme, as defined in the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and (b) mandatory provident fund scheme, as defined in the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme" and the "MPF Ordinance"). The assets of the two schemes are held separately from those of the Group in independently administered funds.

The Group's contributions to the ORSO Scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The Group's contributions to the MPF Scheme are expensed as incurred.

1 Principal accounting policies (continued)

(n) Borrowing costs

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

(o) Provisions

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

(p) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-orrurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable, When inflow is virtually certain, an asset is recognised.

1 Principal accounting policies (continued)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or 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 determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of goodwill, fixed assets, other investments, inventories, trade receivables, other receivables, deposits and prepayments and exclude corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure represents additions to fixed assets (Note 12) and additions to goodwill (Note 11), including additions resulting from acquisitions through purchase of subsidiaries. (Note 23(b)).

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

(r) Dividends

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

As detailed in Note 21, this change has resulted in an increase in opening retained profits at 1 April 2001 by HK$1,035,000 which is the reversal of the provision for 2001 proposed financial dividend previously recorded as a liability as at 31 March 2001 although not declared until after the balance sheet date.

2 Turnover, revenue and segmental information

The Group is principally engaged in the development, engineering, manufacture and sale of toys and moulds.

Revenues recognised during the year are as follows:

	2002 HK$'000	2001 HK$'000
Turnover		
Sale of goods	**596,577**	602,756
Mould income	**60,856**	44,084
	657,433	646,840
Other revenues		
Interest income	**1,933**	1,709
Others	**1,252**	1,876
	3,185	3,585
Total revenues	**660,618**	650,425

Primary reporting format – business segments

The Group's turnover and results are substantially derived from manufacturing operation. Accordingly, no analysis by business segment is presented.

2 Turnover, revenue and segmental information (continued)

Secondary reporting format – geographical segments

	Turnover 2002 HK$'000	Total assets 2002 HK$'000	Capital expenditure 2002 HK$'000
United States	**242,144**	**60,031**	**24,149**
Europe	**149,886**	**69**	**–**
Japan	**124,771**	**37,758**	**–**
Mainland China	**36,450**	**429,469**	**42,102**
Indonesia	**–**	**32,826**	**14,518**
Hong Kong	**–**	**97,388**	**370**
Other	**104,182**	**3,196**	**–**
	657,433	**660,737**	**81,139**
Unallocated assets		**34,346**	**–**
Total assets		**695,083**	**81,139**

	Turnover 2001 HK$'000	Total assets 2001 HK$'000	Capital expenditure 2001 HK$'000
United States	221,682	9,638	–
Europe	187,731	1,926	–
Japan	112,733	17,674	–
Mainland China	45,264	439,525	36,398
Indonesia	–	13,744	528
Hong Kong	–	117,715	15,730
Other	79,430	180	–
	646,840	600,402	52,656
Unallocated assets		10,069	6,154
Total assets		610,471	58,810

No analysis of contribution to operating profit by geographical segment has been prepared as no contribution to operating profit from any of the above segments is substantially out of line with the normal ratio of profit to turnover.

3 Operating profit

The operating profit is stated after crediting and charging the following:

	2002 HK$'000	2001 HK$'000
Crediting		
Net exchange gains	**–**	3,481
Gain on disposal of fixed assets	**1,862**	–
Charging		
Auditors' remuneration	**1,119**	737
Amortisation of goodwill (included in administrative expenses)	**392**	–
Depreciation of owned fixed assets	**42,158**	39,385
Depreciation of fixed assets under finance leases	**1,757**	1,889
Staff costs (inclusive of directors' remuneration – Note 9)	**81,848**	78,793
Operating lease rentals in respect of land and buildings	**1,255**	6,119
Net exchange losses	**249**	–

4 Finance costs

	2002 HK$'000	2001 HK$'000
Interest on loans from banks and financial institutions and overdrafts	**16,638**	17,561
Interest elements of finance leases	**218**	522
	16,856	18,083