

Notes to the condensed interim accounts

1. Basis of preparation and principal accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants ("HKSA").

These condensed interim accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except that the Group has adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

(a) SSAP 11 (revised): Foreign currency translation

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss accounts of foreign enterprises were translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss accounts of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the accounts.

(b) SSAP 34: Employee benefits

(1) Employee leave entitlement

Employee entitlement to annual leave is recognised when it accrues to employees. This is a new policy applied upon the adoption of SSAP 34, however, the profit and loss account in prior periods has not been restated as the effect of this new policy is not material to the accounts.

(2) Equity compensation benefits

Share options are granted to directors and employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, a compensation cost is recognised in the profit and loss account based on the discount. This is a new policy applied upon the adoption of SSAP 34, however, there is no effect to the accounts as all the options were not granted at a discount on the market price.

When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (par value) and share premium.

- (c) Certain presentational changes have been made upon the adoption of SSAP 1 (revised) "Presentation of financial statements" and SSAP 15 (revised) "Cash flow statements".

2. Segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management.

Business segments

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2002			
	Toys	Property investment and management	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Turnover	108,970	13,319	—	122,289
Inter-segment revenue (<i>Note iii</i>)	—	775	(775)	—
	<u>108,970</u>	<u>14,094</u>	<u>(775)</u>	<u>122,289</u>
Results				
Segment results	(50,125)	6,004	—	(44,121)
Inter-segment transactions	(775)	775	—	—
	<u>(50,900)</u>	<u>6,779</u>	<u>—</u>	<u>(44,121)</u>
Unallocated costs				(2,563)
Operating loss				<u>(46,684)</u>

Six months ended 30 June 2001

	Toys	Property investment and management	Eliminations	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue				
Turnover	125,804	10,746	—	136,550
Inter-segment revenue (<i>Note iii</i>)	—	1,878	(1,878)	—
	<u>125,804</u>	<u>12,624</u>	<u>(1,878)</u>	<u>136,550</u>
Results				
Segment results	(73,821)	9,144	—	(64,677)
Inter-segment transactions	(1,878)	1,878	—	—
	<u>(75,699)</u>	<u>11,022</u>	<u>—</u>	<u>(64,677)</u>
Unallocated costs				(1,098)
Operating loss				<u>(65,775)</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after tax of associated companies for the period amounted to HK\$5,861,000 (2001: net profit after taxation of HK\$4,071,000), which has not been included in the segment results shown above.

Geographical segments

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June 2002 HK\$'000	2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	2001 HK\$'000
North America	100,959	96,623	(45,878)	(57,101)
Europe	6,061	25,678	(2,207)	(14,088)
Asia Pacific	15,269	13,773	3,964	6,744
Others	—	476	—	(232)
	<u>122,289</u>	<u>136,550</u>	<u>(44,121)</u>	<u>(64,677)</u>

3. Loss before taxation

Loss before taxation is stated after charging and crediting the following:

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Charging:		
Cost of inventories sold	37,974	62,057
Staff costs (<i>note i</i>)	37,637	39,017
Depreciation of fixed assets	13,583	5,156
	<u> </u>	<u> </u>
Crediting:		
Interest income from bank deposits	1,232	5,188
Dividend income from listed investments	1,029	142
Gain on disposal of fixed assets	70	—
	<u> </u>	<u> </u>

Note i: Staff costs include retirement benefit costs of HK\$991,000 for the Group's defined contribution schemes (2001: HK\$1,272,000).

4. Taxation

The taxation (charge)/credit in the condensed consolidated profit and loss account comprises:

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current period	(176)	(2,917)
Prior years	18	3,783
	(158)	866
Overseas taxation		
Current period	—	(6)
Prior years	—	462
	—	456
Share of taxation attributable to associated companies	—	(446)
	(158)	876

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Overseas taxation is provided on the profits/losses of the overseas subsidiaries and branch in accordance with the tax laws of the countries in which these entities operate.

5. Dividend

The Directors do not recommend the payment of an interim dividend in respect of the six months period ended 30 June 2002 (2001: HK\$ nil).

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$41,478,000 (2001: HK\$43,759,000) and the weighted average number of 1,070,380,000 ordinary shares (2001: 871,541,000 ordinary shares) in issue during the period.

The basic loss per share for the prior period has not been adjusted as the rights issue completed on 7 May 2002 does not give rise to a bonus element.

Diluted loss per share has not been presented for both periods as the exercise of share options and warrants would be anti-dilutive.

7. Trade receivables

As at 30 June 2002, 99.2% (31 December 2001: 88%) of the trade receivables net of provisions were current to 30 days, 0.1% (31 December 2001: 1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is normally granted to tenants.

8. Trade payables

As at 30 June 2002, 7.6% (31 December 2001: 57%) of the trade payables were current to 30 days, 8.5% (31 December 2001: 37%) were 31 to 60 days and the remaining were over 60 days.

9. Bank loans

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	129,905	108,827
In the second year	12,737	12,326
In the third to fifth year	43,151	41,915
After the fifth year	104,406	112,213
	290,199	275,281
Unsecured bank loan payable within one year	14,430	12,000
	304,629	287,281
Current portion included in current liabilities	(144,335)	(120,827)
	160,294	166,454

As at 30 June 2002, the Group has banking facilities amounting to approximately HK\$569 million (31 December 2001: HK\$534 million), of which HK\$305 million (31 December 2001: HK\$287 million) were utilised.

The banking facilities of certain subsidiaries are secured by inventories of HK\$20 million (31 December 2001: HK\$14 million), gross trade receivables of HK\$34 million (31 December 2001: HK\$48 million), bank balances of HK\$39 million (31 December 2001: HK\$64 million), other investments of HK\$106 million (31 December 2001: HK\$ nil) and investment properties with aggregate net book value of HK\$538 million (31 December 2001: HK\$538 million) of the Group at 30 June 2002.

10. Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 30 June 2002 and 31 December 2001	3,000,000,000	300,000
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2001	672,703,673	67,270
Issue of shares	336,351,836	33,636
At 1 January 2002	1,009,055,509	100,906
Issue of shares (<i>Note i</i>)	201,811,101	20,181
Exercise of warrants (<i>Note ii</i>)	1,200	—
At 30 June 2002	1,210,867,810	121,087

Notes:

- (i) The Group raised net proceeds of approximately HK\$51 million by way of a rights issue of one rights share at HK\$0.26 per share for every five existing shares held on 17 April 2002 (the "Rights Issue"). The issue became unconditional on 7 May 2002 and 201,811,101 shares were issued and allotted accordingly. The share capital and share premium were then increased by HK\$20 million and HK\$31 million respectively.
- (ii) As part of the Rights Issue, 201,811,101 warrants were issued on 7 May 2002 on the basis of one warrant for every one fully-paid rights share accepted. The warrants are exercisable from 13 May 2002 to 12 May 2004 at an initial subscription price of HK\$0.30 per share (subject to adjustment).

11. Contingent liabilities

There was no material change in contingent liabilities compared to the most recently published annual report.

12. Commitments

As at 30 June 2002, the Group had the following commitments:

(a) Capital commitments

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Contracted but not provided for in respect of purchase of a subsidiary	12,812	—

(b) Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amount of financial commitments contracted but not provided for at 30 June 2002 were payable as follows:

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Within one year	10,140	7,457
In the second to fifth year inclusive	13,260	18,330
	23,400	25,787

13. Operating lease arrangements

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessee

At 30 June 2002, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Within one year	10,951	11,004
In the second to fifth year inclusive	20,416	25,458
After the fifth year	3,151	3,545
	34,518	40,007

The Group has a non-cancellable sublease with future minimum sublease receipts of HK\$10,644,000 (31 December 2001: HK\$12,180,000).

(b) Lessor

At 30 June 2002, the future aggregate minimum lease payments under non-cancellable operating leases for office and residential premises receivable by the Group were as follows:

	Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
Within one year	25,064	24,704
In the second to fifth year inclusive	9,178	13,817
	<u>34,242</u>	<u>38,521</u>

14. Subsequent event

The Group entered into a Sale and Purchase Agreement to acquire the entire issued share capital of Bagnols Limited ("Bagnols") (formerly known as Rosy Way Company Limited) at a cash consideration of HK\$14.2 million. The principal asset of Bagnols is the whole of the factory buildings situated at No. 1 Tin Hau Road, Tuen Mun, New Territories, Hong Kong, which was agreed at a value of HK\$55.0 million. The major liability of Bagnols is a bank mortgage loan of HK\$38.5 million.

On 30 June 2002, a deposit of HK\$1.4 million was paid in respect of the acquisition, leaving a capital commitment of HK\$12.8 million. The acquisition was completed on 10 July 2002.

15. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 30 June 2002.