

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”). The accounts are prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investment in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) 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 34 (revised)	:	Employee benefits

Certain presentational changes have been made upon the adoption of SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”. Other changes to the Group’s accounting policies and effect of adopting these new standards are set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31 December. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are recorded in the Company’s books at cost, being the fair value of the consideration given plus related acquisition costs, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Negative goodwill arising on consolidation represents the excess of fair value of the net assets of subsidiaries acquired over the purchase consideration. Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the net assets of subsidiaries acquired. Any goodwill/negative goodwill on acquisition of subsidiaries occurring on or after 1 January 2001 is included as an intangible asset and amortised over its estimated useful economic life in accordance with SSAP 30.

Any goodwill or negative goodwill on acquisition of subsidiaries occurring prior to 1 January 2001 was charged or credited, as appropriate, directly to reserves on consolidation.

The turnover and results of subsidiaries are included in the group accounts from the date of their acquisition. In the case of disposals, turnover and results are included up to the date of disposal.

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 goodwill or reserve on consolidation which was not previously charged or recognised in the consolidated profit and loss account.

(ii) *Associated companies*

Associated companies are companies other than subsidiaries in which the Group effectively holds a long term equity investment and over whose management it is able to exercise significant influence.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of associated companies.

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of associated companies, is recognised as an asset and amortised through the consolidated profit and loss account over their estimated economic lives to the Group of between three and fifteen years as deemed appropriate.

(c) **Fixed assets**

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

(ii) *Other fixed assets*

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the costs of these assets on a straight line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

	Percent
Machinery, equipment, furniture and fixtures	10 to 13
Motor vehicles	20
Computers	20 to 25

The Group owns the moulds and tools used in the production of the Group's products by third party manufacturers. All moulds and tools are depreciated in full in the year of initial product shipment.

1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Fixed assets (Cont'd)

(ii) Other fixed assets (Cont'd)

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.

At each balance sheet date, both internal and external sources of information are considered to assess whether the recoverable amounts of other fixed assets have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount.

The gain or loss on disposal of other fixed assets 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.

(d) Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the profit and loss account on a straight line basis over the lease term.

(e) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

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

(h) Deferred taxation

Deferred taxation is accounted for at the current tax 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.

(i) Revenue recognition

Revenue from sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of shipment.

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

Dividend income is recognised when the right to receive payment is established.

Rental income from letting the Group's portfolio of investment properties is recognised on a straight line basis over the lease term.

Property management income is recognised when services are rendered.

(j) Advertising and marketing expenses, advanced royalties and product development costs

Advertising and marketing expenses are written off as incurred, except for the production costs of commercials and related programming costs which are deferred and written off in the year the commercial is first aired.

Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements. All prepayments with respect to these agreements are recoupable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

Expenses relating to product development are deferred and charged to the profit and loss account in the year of initial product shipment.

(k) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. This is a new policy applied upon the adoption of SSAP 34, however, the accounts for the prior periods have not been restated as the effect of this new policy is not material to the accounts.

(ii) *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 none of the options were 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.

1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Employee benefits (Cont'd)

(iii) Pension obligation

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

(l) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(m) 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, cash investments with a maturity of three months or less from date of investment less bank overdrafts.

In accordance with the revised SSAP 15, the Group no longer includes bank loans with original maturity within three months and pledged deposits as cash and cash equivalents. This change in accounting policy has been applied retrospectively so that the comparatives presented in the consolidated cash flow statement have been restated to conform to the changed policy. This change has resulted in an increase in cash and cash equivalents by HK\$17,966,000 as at 1 January 2001 and by HK\$45,364,000 as at 31 December 2001.

(n) 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 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 movements 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.

(o) Segment reporting

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 one as the secondary reporting format.

Unallocated costs represent mainly corporate and inactive subsidiaries' expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and exclude other investments. Segment liabilities comprise bank loans and operating liabilities. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries.

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

2. TURNOVER, REVENUES AND 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. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of goods	456,112	490,022
Rental income from investment properties	26,685	22,839
Property management income	2,464	1,756
	<u>485,261</u>	<u>514,617</u>
Other revenues		
Interest income from bank deposits	2,647	7,851
Dividend income from listed investments	1,080	198
	<u>3,727</u>	<u>8,049</u>
Total revenues	<u>488,988</u>	<u>522,666</u>

Business segments

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2002			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	456,112	29,149	—	485,261
Inter-segment revenue (<i>Note (iii)</i>)	—	1,534	(1,534)	—
	<u>456,112</u>	<u>30,683</u>	<u>(1,534)</u>	<u>485,261</u>
Results				
Segment results	3,785	18,022	—	21,807
Inter-segment transactions	(1,534)	1,534	—	—
	<u>2,251</u>	<u>19,556</u>	<u>—</u>	<u>21,807</u>
Unallocated costs				(8,873)
Operating profit				<u>12,934</u>

2. TURNOVER, REVENUES AND SEGMENT INFORMATION (CONT'D)

Business segments (Cont'd)

	Year ended 31 December 2002			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Assets				
Segment assets	222,353	603,708	(657)	825,404
Investment in associated companies	40,825	—	—	40,825
				<u>866,229</u>
Unallocated assets				243,484
Total assets				<u><u>1,109,713</u></u>
Liabilities				
Segment liabilities	324,317	218,201	(657)	541,861
Unallocated liabilities				1,164
Total liabilities				<u><u>543,025</u></u>
Other information				
Capital expenditure	24,789	55,162		
Depreciation	30,002	98		
	Year ended 31 December 2001			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
Revenue				
Turnover	490,022	24,595	—	514,617
Inter-segment revenue (<i>Note (iii)</i>)	—	3,657	(3,657)	—
	<u>490,022</u>	<u>28,252</u>	<u>(3,657)</u>	<u>514,617</u>
Results				
Segment results	(109,321)	13,500	—	(95,821)
Inter-segment transactions	(3,657)	3,657	—	—
	<u>(112,978)</u>	<u>17,157</u>	<u>—</u>	<u>(95,821)</u>
Unallocated costs				(1,472)
Operating loss				<u><u>(97,293)</u></u>

	Year ended 31 December 2001			
	Toys	Property investment and management	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Segment assets	126,892	553,047	(852)	679,087
Investment in associated companies	45,554	—	—	45,554
				<hr/>
Unallocated assets				724,641
				250,268
				<hr/>
Total assets				974,909
				<hr/> <hr/>
Liabilities				
Segment liabilities	266,986	190,905	(852)	457,039
Unallocated liabilities				3,325
				<hr/>
Total liabilities				460,364
				<hr/> <hr/>
Other information				
Capital expenditure	27,106	516,710		
Depreciation	33,639	1,954		

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, industrial 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 taxation of associated companies for the year amounted to HK\$4,729,000 (2001: net profit after taxation of HK\$3,849,000), which has not been included in the segment results shown above.

2. TURNOVER, REVENUES AND SEGMENT INFORMATION (CONT'D)

Geographical segments

A geographical analysis of the Group's turnover, segment results, segment assets and capital expenditure is as follows:

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	Segment assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
North America	424,500	3,375	213,441	24,105
Europe	27,364	1,154	—	—
Asia Pacific	33,205	17,259	611,963	55,846
Others	192	19	—	—
	485,261	21,807	825,404	79,951
	Turnover 2001 HK\$'000	Segment results 2001 HK\$'000	Segment assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
North America	432,413	(106,934)	111,250	26,389
Europe	47,842	(1,792)	—	—
Asia Pacific	32,888	12,891	567,837	517,427
Others	1,474	14	—	—
	514,617	(95,821)	679,087	543,816

3. OPERATING PROFIT/(LOSS)

The operating profit/loss is stated after charging the following:

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	183,972	222,853
Depreciation of fixed assets	30,100	35,593
Staff costs, including directors' remuneration (Note 10)	73,183	81,719
Operating lease expenses		
– Office and warehouse facilities	10,599	10,886
– Hire of equipment	—	27
Loss on disposal of fixed assets	236	59
Loss on liquidation of subsidiaries	—	203
Product development costs	19,887	25,533
Revaluation deficit on investment properties	1,900	1,558
Outgoings in respect of investment properties	3,075	1,708
Auditors' remuneration	1,350	1,350
	343,022	483,549

4. INTEREST EXPENSE AND BANK CHARGES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans and overdrafts	9,846	15,995
Other incidental borrowing costs	5,388	2,519
	<u>15,234</u>	<u>18,514</u>

5. NET GAIN ON INVESTMENT IN SECURITIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net realised gain on other investments	17,001	13,862
Net unrealised loss on other investments	(12,102)	(1,572)
	<u>4,899</u>	<u>12,290</u>

6. TAXATION (CHARGE)/CREDIT

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong profits tax		
Current year	(351)	(1,373)
Prior years	26	6,084
	<u>(325)</u>	<u>4,711</u>
Overseas taxation		
Current year	—	(94)
Prior years	—	203
	<u>—</u>	<u>109</u>
Share of taxation attributable to associated companies	(636)	338
	<u>(961)</u>	<u>5,158</u>

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

6. TAXATION (CHARGE)/CREDIT (CONT'D)

(b) Details of unprovided deferred tax assets/(liabilities) as at the year end are as follows:

	2002 HK\$'000	2001 HK\$'000
Differences in depreciation allowances	792	(106)
Unutilised tax losses	131,709	106,585
Other timing differences	31,701	56,082
	<u>164,202</u>	<u>162,561</u>

Unutilised tax losses of HK\$22,295,000 as at 31 December 2002 will expire within five years from that date.

7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$1,444,000 (2001: a profit of HK\$299,171,000).

8. DIVIDEND

	2002 HK\$'000	2001 HK\$'000
2001 final dividend paid of HK\$nil (2001: 2000 final dividend paid of HK\$0.01) per share	<u>—</u>	<u>10,091</u>

The directors do not recommend the payment of final dividend for the current year.

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000
Profit/(loss) attributable to shareholders for the purpose of calculating basic and diluted earnings/(loss) per share	<u>1,272</u>	<u>(86,799)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	<u>1,141,201,081</u>	940,863,630
Number of potential ordinary shares issuable under share options	<u>286,560</u>	N/A
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	<u>1,141,487,641</u>	<u>N/A</u>

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

10. STAFF COSTS

	2002	2001
	HK\$'000	HK\$'000
Wages, salaries and other benefits	72,481	79,175
Contributions to defined contribution schemes	1,742	2,912
Forfeited contributions	(1,040)	(368)
	73,183	81,719
	73,183	81,719

As at 31 December 2002 and 2001, there was no contribution payable and no forfeited contribution available to reduce future contributions.

11. EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

(a) Directors' emoluments

The aggregate amounts of the directors' emoluments are as follows:

	2002	2001
	HK\$'000	HK\$'000
Fees	200	200
Basic salaries, housing allowances, other allowances and benefits in kind	7,153	6,710
Pension contributions	42	282
	7,395	7,192
	7,395	7,192

Directors' emoluments include directors' fees of HK\$200,000 (2001: HK\$200,000) and other emoluments of HK\$150,000 (2001: HK\$150,000) payable to the non-executive directors.

The numbers of directors whose emoluments for the year fell within the designated bands are as follows:

	Number of directors	
HK\$	2002	2001
up to 1,000,000	5	6
1,000,001 – 1,500,000	2	—
1,500,001 – 2,000,000	1	2
2,500,001 – 3,000,000	1	1

No director has waived emoluments in respect of the years ended 31 December 2002 and 2001.

11. EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES (CONT'D)

(b) Five highest paid employees' emoluments

Among the five top-paid employees, one (2001: two) is/are executive directors whose remuneration during the period of directorship is disclosed above. Total remuneration of the other four (2001: the director before appointment and the other three) highest paid employees, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited, are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	9,854	7,800
Pension contributions	269	297
	<u>10,123</u>	<u>8,097</u>

The emoluments of these highest paid employees fell within the following bands:

	Number of employees	
HK\$	2002	2001
1,000,001 – 1,500,000	—	1
1,500,001 – 2,000,000	1	—
2,000,001 – 2,500,000	2	3
3,500,001 – 4,000,000	1	—

12. FIXED ASSETS – GROUP

	Investment properties HK\$'000	Machinery, equipment, furniture and fixtures HK\$'000	Moulds and tools HK\$'000	Motor vehicles HK\$'000	Computers HK\$'000	Total HK\$'000
Cost or valuation						
At 1 January 2002	538,200	33,448	352,085	2,565	33,748	960,046
Additions	—	824	23,396	—	731	24,951
Purchase of a subsidiary (<i>Note 23</i>)	55,000	—	—	—	—	55,000
Deficit on revaluation	(1,900)	—	—	—	—	(1,900)
Disposals	—	(3,566)	—	(2,565)	(1,032)	(7,163)
At 31 December 2002	591,300	30,706	375,481	—	33,447	1,030,934
Accumulated depreciation						
At 1 January 2002	—	28,418	352,085	2,215	22,961	405,679
Charge for the year	—	1,977	23,396	83	4,644	30,100
Disposals	—	(3,212)	—	(2,298)	(1,011)	(6,521)
At 31 December 2002	—	27,183	375,481	—	26,594	429,258
Net book value						
At 31 December 2002	591,300	3,523	—	—	6,853	601,676
At 31 December 2001	538,200	5,030	—	350	10,787	554,367

The Group's interests in investment properties at their net book values are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on:		
Lease of over 50 years	16,300	17,700
Leases of between 10 to 50 years	575,000	520,500
	591,300	538,200

12. FIXED ASSETS – GROUP (CONT'D)

The investment properties were revalued by B.I. Appraisals Limited, an independent professional valuer, on an open market value basis as at 31 December 2002. The deficit arising on revaluation of HK\$1,900,000 was charged to the profit and loss account (*Note 3*).

Other fixed assets are stated at cost.

Details of the principal properties of the Group as at 31 December 2002 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq.ft.	100%
Playmates Factory Building 1 Tin Hau Road Tuen Mun	Industrial	2047	317,100 Sq.ft.	100%

13. INVESTMENT IN SUBSIDIARIES – COMPANY

	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	10,702	10,702
Less: Provision for impairment losses	(7,525)	(7,525)
	<u>3,177</u>	<u>3,177</u>
Amounts due from subsidiaries, net of provisions	873,787	825,850
Amounts due to subsidiaries	(201,065)	(202,220)
	<u><u>675,899</u></u>	<u><u>626,807</u></u>

The amounts due from/to subsidiaries are unsecured, have no fixed terms of repayment and are interest free except for the amounts due from subsidiaries of HK\$309,002,000 (2001: HK\$307,596,000) which bear interest at Hong Kong Interbank Money Market Offer Rate ("HIBOR") plus 1% (2001: HIBOR) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2002 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding		Principal activities and place of operation
			2002	2001	
Shares held directly:					
Playmates International Limited	The British Virgin Islands	5 ordinary shares of US\$1 each	100%	100%	Investment holding in Hong Kong
Shares held indirectly:					
Playmates Asia Services Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	100%	Provision of services, based in Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Property investment in Hong Kong
Bagnols Limited (formerly known as Rosy Way Company Limited)	Hong Kong	3,001,000 ordinary shares of HK\$10 each	100%	—	Property investment in Hong Kong
Bandol Limited (formerly known as Cityway Properties Limited)	The British Virgin Islands	1 ordinary share of US\$1	100%	100%	Property investment in Hong Kong
Bourges Limited (formerly known as Supreme Base Properties Limited)	The British Virgin Islands	1 ordinary share of US\$1	100%	100%	Property investment in Hong Kong
Prestige Property Management Limited (formerly known as Pacific Management Group Limited)	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property management in Hong Kong
PIL Finance Limited (formerly known as Playmates Finance Limited)	The British Virgin Islands	1 ordinary share of US\$1	100%	100%	Investment holding in Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US\$30 each	100%	100%	Toys development, marketing and distribution in the U.S.A.
Regarding Play Inc.	U.S.A.	270,230,000 shares of US\$0.01 each	100%	90%	Toys development, marketing and distribution in the U.S.A.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. INVESTMENT IN ASSOCIATED COMPANIES – GROUP

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Share of net assets other than goodwill	18,356	21,732
Share of goodwill	9,470	10,823
	<u>27,826</u>	<u>32,555</u>
Loan to an associated company	12,999	12,999
	<u>40,825</u>	<u>45,554</u>
Investment at cost, unlisted shares	<u>18,078</u>	<u>18,078</u>

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

As at 31 December 2002, the Group held interests in the following associated companies:

Name of company	Place of incorporation	Particulars of issued shares held	Effective percentage holding
Unimax Holdings Limited (“Unimax”)	The British Virgin Islands	Ordinary shares of US\$1 each	49%
Nippon Toys Limited (“NTL”)	Hong Kong	Ordinary shares of HK\$1 each	50%

The associated companies are held indirectly by the Company and operate in Hong Kong.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys and dolls.

The principal business of NTL is to develop and act as sourcing and purchasing agent of finished products such as toys, novelties, sales promotion items, premiums and gift products.

15. OTHER INVESTMENTS – GROUP

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-current		
Equity securities listed in Hong Kong, at market value	<u>16,807</u>	<u>35,650</u>
Current		
Equity securities, at market value		
Listed in Hong Kong	9,363	12,923
Listed outside Hong Kong	50,369	—
Debt securities, at market value		
Listed outside Hong Kong	<u>5,598</u>	<u>—</u>
	<u>65,330</u>	<u>12,923</u>
	<u>82,137</u>	<u>48,573</u>

16. INVENTORIES – GROUP

At 31 December 2002, inventories that are carried at net realisable value amounted to HK\$22,042,000 (2001: HK\$14,604,000).

17. TRADE RECEIVABLES – GROUP

As at 31 December 2002, 99.7% (2001: 88%) of the trade receivables net of provisions were current to 30 days, 0.1% (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.

18. BANK LOANS – GROUP

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	132,300	108,827
In the second year	16,122	12,326
In the third to fifth years	53,305	41,915
After the fifth year	119,485	112,213
	321,212	275,281
Unsecured bank loan payable within one year	45,308	12,000
	366,520	287,281
Current portion included in current liabilities	(177,608)	(120,827)
	188,912	166,454

As at 31 December 2002, the Group has banking facilities amounting to approximately HK\$526 million (2001: HK\$534 million), of which HK\$378 million (2001: HK\$287 million) were utilised.

The banking facilities of certain subsidiaries are secured by bank balances of HK\$101 million (2001: HK\$64 million), other investments of HK\$56 million (2001: HK\$nil), investment properties with aggregate net book value of HK\$591 million (2001: HK\$538 million), inventories of HK\$nil (2001: HK\$14 million) and gross trade receivables of HK\$nil (2001: HK\$48 million) of the Group at 31 December 2002.

19. TRADE PAYABLES – GROUP

As at 31 December 2002, 87.3% (2001: 57%) of the trade payables were current to 30 days, 8.5% (2001: 37%) were 31 to 60 days and the remaining were over 60 days.

20. SHARE CAPITAL

	Authorised Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2001	1,500,000,000	150,000
Increase in authorised ordinary share capital	1,500,000,000	150,000
At 31 December 2001 and 2002	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
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 31 December 2002	<u>1,210,867,810</u>	<u>121,087</u>

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 Rights 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\$20,181,000 and HK\$30,690,000 respectively after offsetting issuing expenses of HK\$1,600,000.
- (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). As at 31 December 2002, 201,809,901 warrants were outstanding.

20. SHARE CAPITAL (CONT'D)

- (iii) At the Special General Meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan ("Plan") and a Share Option Scheme ("Scheme") respectively were approved and adopted. A nominal consideration at HK\$10 or US\$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At the beginning of the year	52,465,000	33,404,000
Granted (<i>Note (a)</i>)	20,324,000	23,670,000
Additions due to rights issue adjustment (<i>Note (b)</i>)	1,112,000	2,581,000
Lapsed	(22,248,000)	(7,190,000)
At the end of the year (<i>Note (c)</i>)	51,653,000	52,465,000

Notes:

- (a) Share options were granted on 9 August 2002 at the exercise price of HK\$0.199 per share (21 May 2001 and 28 August 2001: HK\$0.304 and HK\$0.300 respectively) and expiring on 8 August 2012 (2001: expiring on 20 May 2011 and 27 August 2011 respectively). The market price on 8 August 2002, being the trading day immediately before the date on which the options were granted was HK\$0.197 per share. Consideration received was HK\$833 (2001: HK\$972) in respect of the share options granted during the year.
- (b) Following the rights issues, the exercise price and the number of shares to be issued upon exercise of the existing share options have been adjusted.

(c) Share options outstanding at the end of the year have the following terms:

Expiry Date	Original exercise price	Adjusted exercise price due to Rights Issue	Number of options		Vested number of options	
			2002 '000	2001 '000	2002 '000	2001 '000
Directors						
25 August 2008	0.543	0.532	529	518	529	350
26 May 2009	0.517	0.506	529	950	399	482
19 October 2009	0.443	0.434	660	3,668	498	1,861
21 July 2010	0.639	0.626	551	2,160	331	864
20 May 2011	0.304	0.297	2,048	5,000	819	1,000
8 August 2012	0.199	—	6,200	—	1,550	—
			<u>10,517</u>	<u>12,296</u>	<u>4,126</u>	<u>4,557</u>
Other employees						
14 May 2008	0.543	0.532	5,464	7,705	5,464	5,256
26 May 2009	0.517	0.506	1,569	2,617	1,172	1,288
16 August 2009	0.428	0.419	1,764	6,477	1,331	3,286
21 July 2010	0.639	0.626	2,879	5,250	1,727	2,100
20 May 2011	0.304	0.297	8,057	10,120	3,223	2,024
27 August 2011	0.300	0.294	8,163	8,000	3,265	1,600
8 August 2012	0.199	—	13,240	—	3,310	—
			<u>41,136</u>	<u>40,169</u>	<u>19,492</u>	<u>15,554</u>
			<u>51,653</u>	<u>52,465</u>	<u>23,618</u>	<u>20,111</u>

No share options were exercised or cancelled during the year (2001: nil).

21. RESERVES

Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	8,518	582	163,812	172,912
2000 final dividend paid	—	—	(10,091)	(10,091)
Profit for the year	—	—	299,171	299,171
Issue of shares	73,997	—	—	73,997
Shares issuing expenses	(2,508)	—	—	(2,508)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>80,007</u>	<u>582</u>	<u>452,892</u>	<u>533,481</u>
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2002	80,007	582	452,892	533,481
Loss for the year	—	—	(1,444)	(1,444)
Issue of shares (<i>Note 20(i)</i>)	32,290	—	—	32,290
Shares issuing expenses (<i>Note 20(i)</i>)	(1,600)	—	—	(1,600)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>110,697</u>	<u>582</u>	<u>451,448</u>	<u>562,727</u>

The reserves of the Company available for dividend or distribution comprised the following:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Capital redemption reserve	582	582
Retained profits	451,448	452,892
	<hr/>	<hr/>
	<u>452,030</u>	<u>453,474</u>

Group

Included in the share premium of the Group of HK\$112,553,000 was an amount of HK\$1,856,000 which arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash (outflow)/inflow generated from operations

	2002	As restated 2001
	HK\$'000	HK\$'000
Profit/(loss) before taxation	2,233	(91,957)
Interest income	(2,647)	(7,851)
Interest on bank loans and overdrafts	9,846	15,995
Dividends received from other investments	(1,080)	(198)
Depreciation	30,100	35,593
Deficit on investment properties revaluation	1,900	1,558
Loss on disposal of fixed assets	236	59
Loss on liquidation of subsidiaries	—	203
Net gain on investment in securities	(4,899)	(12,290)
Share of profits less losses of associated companies	4,093	(3,511)
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	39,782	(62,399)
(Increase)/decrease in inventories	(7,438)	4,607
(Increase)/decrease in trade receivables, other receivables, deposits and prepayments	(74,304)	133,534
Increase/(decrease) in trade payables, other payables and accrued charges	1,285	(47,418)
	<hr/>	<hr/>
Net cash (outflow)/inflow generated from operations	<u>(40,675)</u>	<u>28,324</u>

(b) Analysis of changes in financing during the year

	Bank loans		Share capital including premium	
	2002	As restated 2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	287,281	84,096	182,769	77,644
Acquisition of a subsidiary (<i>Note 23</i>)	38,500	238,000	—	—
Net cash inflow/(outflow) from financing	40,739	(34,815)	50,871	105,125
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	<u>366,520</u>	<u>287,281</u>	<u>233,640</u>	<u>182,769</u>

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Analysis of cash and cash equivalents

	2002 HK\$'000	As restated 2001 HK\$'000
Cash and bank balances	206,456	230,233
Less: Deposits as securities for banking facilities (<i>Note 18</i>)	(100,788)	(63,960)
Cash and cash equivalents	105,668	166,273

23. ACQUISITION

On 10 July 2002 the Group acquired the entire issued share capital of Bagnols Limited ("Bagnols") (formerly known as Rosy Way Company Limited) which is engaged in property investment and is incorporated in Hong Kong (the "Acquisition"). The total consideration for the Acquisition was approximately HK\$14 million and was satisfied by cash.

The assets and liabilities arising from the acquisition are as follows:

	HK\$'000
Property (<i>Note 12</i>)	55,000
Bank loan (<i>Note 22(b)</i>)	(38,500)
Other liabilities less assets	(2,256)
Fair value of net assets acquired	14,244
Cash consideration	14,244

During the year, Bagnols contributed HK\$687,000 to the Group's net operating cash flows, and utilised HK\$741,000 for financing.

Analysis of the net outflow in respect of the purchase of subsidiary:

	HK\$'000
Cash consideration	14,244
Less: Bank balance acquired	(5)
Net cash outflow	14,239

24. CONTINGENT LIABILITIES

- (a) The Company has executed guarantees amounting to approximately HK\$344 million (2001: HK\$461 million) with respect to banking facilities made available to subsidiaries. As at 31 December 2002, HK\$239 million (2001: HK\$264 million) of such banking facilities were utilised.
- (b) The Internal Revenue Service of the United States of America ("IRS") is examining the income tax returns of the US subsidiaries for the tax years 1995, 1996 and 1997. Such examination includes review of transfer pricing methodology and timing of certain deductions, and is currently ongoing. The subsidiaries have been advised by their legal counsel that the positions taken by them in respect of the matters under IRS review are based upon substantial authority, and that the examination is unlikely to result in a material adverse effect on the financial position of the Group.
- (c) The Group has discounted bills of HK\$8,273,000 as at 31 December 2002 (2001: HK\$3,706,000).

25. COMMITMENTS**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 amounts of financial commitments contracted but not provided for at the end of the year were payable as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	10,724	7,457
In the second to fifth years inclusive	14,157	18,330
	24,881	25,787

The Company did not have any commitments at 31 December 2002 (2001: HK\$nil).

26. 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) As lessee

At 31 December 2002, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	11,438	11,004
In the second to fifth years inclusive	22,919	25,458
After the fifth year	2,856	3,545
	<u>37,213</u>	<u>40,007</u>

The Group has a non-cancellable sublease with future minimum sublease receipts of HK\$8,383,000 (2001: HK\$12,180,000).

(b) As lessor

At 31 December 2002, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	25,146	24,704
In the second to fifth years inclusive	9,710	13,817
	<u>34,856</u>	<u>38,521</u>

27. 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\$1.00 ruling at 31 December 2002.

28. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 28 February 2003.