

# Notes to the Accounts

## 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 the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and certain investments in securities are stated at fair value.

The Group has adopted the following new and revised SSAPs which became effective on 1 January 2002.

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group's consolidated accounts. Certain presentational changes have been made upon the adoption of these new and revised SSAPs.

### (b) Group accounting

#### (i) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December 2002.

Pursuant to a Management Services Agreement dated 28 April 2000 ("MSA"), the Company's control over the assets and operations of toy and property subsidiaries was significantly restricted. Consequently, the Company ceased consolidating these subsidiaries from 4 May 2000, the date on which the restrictions came into force. As the Company resumed control over the assets and operations of these subsidiaries upon the cancellation of the MSA, the Group's consolidated accounts as of 31 December 2001 included the results and the net assets of these subsidiaries with effect from 31 December 2001.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Group accounting (continued)

##### (i) *Basis of consolidation (continued)*

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.

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 unamortised goodwill or negative goodwill or goodwill/negative goodwill and exchange differences 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.

##### (ii) *Subsidiaries*

Subsidiaries are those entities 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.

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.

# Notes to the Accounts

(Continued)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Group accounting (continued)

#### (iii) *Associates*

An associate is a company, not being a subsidiary, in which an equity interest of not less than 20% is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In 2001, the Group did not apply equity method to account for the toy and property subsidiaries as there had been long-term restrictions to transfer funds from these subsidiaries to the Company under the MSA.

#### (iv) *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 are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

The accounts of the subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date for the balance sheet items whilst the profit and loss items are translated at an average rate for the year. The resulting exchange differences are dealt with as a movement in reserves. Upon disposal of subsidiaries and associates, the related accumulated exchange differences are included in the profit and loss account as part of the gain or loss on disposal.

# Notes to the Accounts

(Continued)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (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 are valued by independent valuers at each balance sheet date. 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 the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

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

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.

# Notes to the Accounts

(Continued)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Fixed assets (continued)

#### (ii) Other fixed assets

Other fixed assets, comprising properties other than investment properties, leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis as follows:

Buildings	21 to 50 years
Leasehold improvements	3 to 10 years or over the term of the relevant leases, whichever is shorter
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	5 years

#### (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 assets included in other 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.

The gain or loss on disposal of a fixed asset other than investment properties 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.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (d) Intangibles

##### *Goodwill/negative 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 or associate at the date of acquisition. Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill/negative goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provision in SSAP No. 30 "Business Combinations" and goodwill/negative goodwill previously written off against reserves has not been restated. Any impairment arising on such goodwill is accounted for in the profit and loss account.

#### (e) Investments in securities

##### *Held-to-maturity securities*

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account.

The carrying amounts of individual held-to-maturity securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be fully recoverable and are recognised in the profit and loss account as an expense immediately.

# Notes to the Accounts

(Continued)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Investments in securities (continued)

#### *Non-trading securities*

Securities which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the investment is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant investment, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

#### *Trading securities*

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, 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 carried at the lower of cost and net realisable value. Cost is calculated using the weighted average 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.

# Notes to the Accounts

## (Continued)

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (g) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

#### (h) Treasury shares

Treasury shares represent the Company's equity shares held by its consolidated subsidiaries or by its associates. The acquisition costs of treasury shares are shown as a reduction of shareholders' equity in the consolidated balance sheet.

#### (i) 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.

#### (j) 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 and bank overdrafts.

#### (k) 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, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.



# Notes to the Accounts

(Continued)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Contingent liabilities

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 the outflow becomes probable, it will then be recognised as a provision.

### (m) 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.

### (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.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (o) Operating lease charges

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.

# Notes to the Accounts

(Continued)

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (p) Employee benefits

- (i) Salaries, bonus, paid annual leave and the cost to the Group of other benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) The Group operates two defined contribution schemes, the assets of which are held in separate administered funds. The Group's contributions to the defined contribution schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.
- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (q) Revenue recognition

#### (i) *Sale of goods*

Revenue is recognised when goods are delivered to customers 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. Contingent rentals are recognised as income in the year in which they are earned.

#### (iii) *Dividends*

Dividend income from investments is recognised when the Group's right to receive payment is established.

#### (iv) *Interest income*

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

# Notes to the Accounts

(Continued)

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in notes 38(a) to the accounts.

Turnover represents sales value of goods supplied to customers and rental income. The amount of each category of revenue recognised during the year is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of toys and accessories	1,698,645	—
Rental and service income from investment properties	42,579	—
Revenues from hotel operation	63,796	—
Sales of computer hardware and software	10,909	70,398
	<b>1,815,929</b>	70,398
Other revenue		
Interest income	43,398	50,835
Dividend income from trading securities	98	—
	<b>43,496</b>	50,835
Total revenue	<b>1,859,425</b>	121,233

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format. As discussed more fully in note (1)(b)(i), the net assets and results of the toy and property subsidiaries are included in the consolidated accounts with effect from 31 December 2001. Therefore, the primary segment information in 2001 only reported the segment of Internet business-to-business investment. As at 31 December 2002, the Group held only passive investments in the Internet business-to-business sectors. Moreover a technology division has been set up to supply consumer electronic products during the year and its segment turnover, results, assets or liabilities, which did not exceed ten percent materiality thresholds, are grouped into the toy operation in 2002. Accordingly, the Group is divided into three business segments, namely, toy operation, property operation and Internet business-to-business investments as described below. Other corporate income and expenses, held-to-maturity securities and cash held for non-operating purpose are not allocated to the above three segments. An analysis by principal business and geographical location of the operations of the Company and its subsidiaries is set out on pages 43 to 45.

# Notes to the Accounts

## (Continued)

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary segment information by business:

	Year ended 31 December 2002			Group HK\$'000
	Toy operation HK\$'000	Property operation HK\$'000	Internet business- to-business investments HK\$'000	
Turnover				
Company and subsidiaries	1,698,645	106,375	10,909	1,815,929
Share of associates	7,009	41,751	—	48,760
	1,705,654	148,126	10,909	1,864,689
Segment results				
Company and subsidiaries	77,212	43,222	(15,748)	104,686
Other corporate income and expenses				24,138
Operating profit				128,824
Share of losses less profits of associates	681	(1,679)	—	(998)
Finance costs				(46)
Taxation				(16,829)
Minority interests				(5,876)
Profit attributable to shareholders				105,075
Segment assets	1,113,435	846,470	—	1,959,905
Investments in associates	(1,635)	22,199	—	20,564
Unallocated assets				1,140,034
Total assets				3,120,503
Segment liabilities	396,930	102,476	—	499,406
Loans from minority shareholders	7,036	39,329	—	46,365
Taxation	7,642	33,047	—	40,689
Unallocated liabilities				13,957
Total liabilities				600,417
Capital expenditure	44,277	29,473	27	73,777
Depreciation	42,325	13,548	214	56,087
Amortisation charge	—	—	654	654
Impairment provision for non-trading securities	—	—	8,410	8,410
(Profit)/loss on disposal of subsidiaries	—	(4,876)	2,455	(2,421)

# Notes to the Accounts

## (Continued)

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary segment information by business:

	Year ended 31 December 2001			Group HK\$'000
	Toy operation HK\$'000	Property operation HK\$'000	Internet business- to-business investments HK\$'000	
Turnover				
Company and subsidiaries	—	—	70,398	70,398
Share of associates	—	—	1,567	1,567
	—	—	71,965	71,965
Segment results				
Company and subsidiaries	—	—	(226,100)	(226,100)
Other corporate income and expenses				(51,140)
Operating loss				(277,240)
Share of losses less profits of associates	—	—	(14,691)	(14,691)
Finance costs				(100)
Write-back of provision against the toy and property subsidiaries				967,620
Taxation				(211)
Minority interests				5,224
Profit attributable to shareholders				680,602
Segment assets	917,722	858,600	62,498	1,838,820
Investments in associates	(338)	47,128	—	46,790
Unallocated assets				1,140,510
Total assets				3,026,120
Segment liabilities	282,558	115,783	12,254	410,595
Loans from minority shareholders	8,476	69,926	—	78,402
Taxation	4,760	29,963	2	34,725
Unallocated liabilities				18,784
Total liabilities				542,506
Capital expenditure	—	—	28,059	28,059
Depreciation	—	—	8,380	8,380
Amortisation charge	—	—	27,939	27,939
Impairment provision for non-trading securities	—	—	84,758	84,758
Loss on disposal of an associate	—	—	49,413	49,413

# Notes to the Accounts

(Continued)

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Secondary segment information by geographical location:

In presenting information on the basis of geographical segments, segment turnover is based on the geographical destination of delivery of goods. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover 2002 HK\$'000	Segment results before finance costs and taxation 2002 HK\$'000	Total assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
United States	1,069,798	42,967	10,216	—
Europe	240,972	9,475	1,603	—
Mainland China	106,451	42,998	1,264,445	68,181
Hong Kong	125,094	9,425	632,976	5,446
Japan	127,333	3,886	27,522	150
Singapore	12,388	(14,627)	—	—
Other regions	133,893	10,562	23,143	—
	1,815,929	104,686	1,959,905	73,777
Other corporate income and expenses		24,138		
Operating profit		128,824		
Investments in associates			20,564	
Unallocated assets			1,140,034	
Total assets			3,120,503	
	Turnover 2001 HK\$'000	Segment results before finance costs and taxation 2001 HK\$'000	Total assets 2001 HK\$'000	Capital expenditure 2001 HK\$'000
United States	—	(63,068)	81,821	—
Mainland China	—	—	1,315,915	—
Hong Kong	—	(56,794)	368,283	—
Japan	—	(55,660)	4,858	—
Singapore	70,398	(50,578)	50,356	28,059
Other regions	—	—	17,587	—
	70,398	(226,100)	1,838,820	28,059
Other corporate income and expenses		(51,140)		
Operating loss		(277,240)		
Investments in associates			46,790	
Unallocated assets			1,140,510	
Total assets			3,026,120	

# Notes to the Accounts

## (Continued)

### 3 OPERATING PROFIT/(LOSS)

	2002 HK\$'000	2001 HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
Crediting		
Rental from investment properties less outgoings of HK\$8,246,000 (2001: Nil)	<b>30,257</b>	—
Gain on disposal of investment properties	<b>8,486</b>	—
Net realised and unrealised gains on trading securities	<b>536</b>	—
Recovery of bad debts previously written-off	<b>1,842</b>	—
Charging		
Cost of inventories sold ( <i>Note</i> )	<b>1,513,130</b>	58,106
Staff costs ( <i>Note</i> 10)	<b>350,526</b>	96,288
Depreciation	<b>56,087</b>	8,380
Operating lease charges in respect of properties	<b>31,657</b>	12,242
Amortisation of goodwill and other intangible assets	<b>654</b>	27,939
Auditors' remuneration	<b>2,284</b>	743
Loss on disposal of fixed assets other than investment properties	<b>9,162</b>	9,006
Net exchange losses	<b>13</b>	1,806

*Note:*

*Cost of inventories sold includes staff cost, depreciation and operating lease charges totalling HK\$304,958,000, which are also included in the respective total amount disclosed separately above for each of these types of expenses.*

### 4 FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts	<b>46</b>	100

# Notes to the Accounts

(Continued)

## 5 WRITE-BACK OF PROVISION AGAINST THE TOY AND PROPERTY SUBSIDIARIES

In the preparation of the Group accounts for the year ended 31 December 2000, the Company had determined to hold the toy and property subsidiaries for disposal. In view of this determination and the significant restrictions on the Company's control over these subsidiaries pursuant to the MSA, a provision of HK\$1,018,148,000 was made by the Group against the share of the net assets of the toy and property subsidiaries to reflect the fair value of the Group's interests in these subsidiaries as at 31 December 2000.

In the preparation of the Group accounts for the year ended 31 December 2001, the accounts of the toy and property subsidiaries were consolidated with effect from 31 December 2001, the date the Company resumed control over these subsidiaries pursuant to the cancellation of the MSA and the Put Option Deed. As stated in note 1(b)(i) to the accounts, the toy and property subsidiaries were consolidated and the provision previously made was no longer required. The provision, after taking into account the Group's share of the net assets of these subsidiaries as at 31 December 2001, was written back to the profit and loss account.

## 6 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2002 HK\$'000	2001 HK\$'000
The amount of taxation charged to the consolidated profit and loss account represents:		
Current taxation:		
Hong Kong profits tax	7,323	—
Overseas taxation	8,106	211
Deferred taxation (Note 25)	(342)	—
	<b>15,087</b>	211
Share of taxation attributable to associates	1,742	—
	<b>16,829</b>	211



# Notes to the Accounts

## (Continued)

### 6 TAXATION (continued)

	2002 HK\$'000	2001 HK\$'000
Deferred taxation charge/(credit) for the year has not been provided in respect of the following:		
Unutilised tax losses	25,902	(12,238)
Accelerated depreciation allowances	—	(2,003)
	<b>25,902</b>	<b>(14,241)</b>

### 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$499,295,000 (2001: HK\$95,676,000).

### 8 DIVIDEND

	2002 HK\$'000	2001 HK\$'000
Final dividend proposed - HK1.5 cents per ordinary share (2001: HK1.5 cents)	84,150	84,150

At a meeting held on 18 March 2003, the directors declared a final dividend of HK1.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

### 9 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$105,075,000 (2001: HK\$680,602,000) and the weighted average number of 5,610,000,263 (2001: 5,595,125,000) ordinary shares in issue during the year.

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK\$105,075,000 and 6,057,954,808 ordinary shares which comprise 5,610,000,263 ordinary shares in issue during the year plus the weighted average number of 447,954,545 ordinary shares deemed to be issued at no consideration if all outstanding warrants had been exercised. No diluted earnings per share for 2001 was presented as the exercise of the Company's outstanding warrants would be anti-dilutive.

# Notes to the Accounts

## (Continued)

### 10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2002 HK\$'000	2001 HK\$'000
Wages and salaries	303,358	48,809
Other allowances and benefits	42,479	13,000
Termination benefits	—	32,502
Pension costs (Note 11)	4,689	1,977
	<b>350,526</b>	<b>96,288</b>

### 11 RETIREMENT BENEFITS SCHEMES

The Group has two defined contribution schemes for all qualified employees.

- (i) Hong Kong employees who commenced employment before 1 September 2000 and qualified employees from operations outside Hong Kong are members of the first defined contribution scheme. The assets of the defined contribution scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, the employer and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and accrued interest after 10 years' service, or at an increasing scale of between 20% to 90% after completion of 2 to 9 years' service.

When there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employer's contributions arising from members terminating employment before becoming fully vested are allocated to the benefit of the remaining members instead of being used to reduce the future contributions of the employer.

- (ii) All qualified Hong Kong employees who commenced employment on or after 1 September 2000 are members of the second defined contribution scheme which has been set up in accordance with the guidelines of Mandatory Provident Fund. Both the employers and employees contribute 5% of salary (limited to HK\$1,000) to the scheme each month.

Contributions totalling HK\$4,689,000 (2001: HK\$1,977,000) were paid to the fund at the year end.

# Notes to the Accounts

(Continued)

## 12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

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

	2002 HK\$'000	2001 HK\$'000
Fees	328	740
Salaries and other emoluments	8,101	6,323
Performance related incentive payments	2,304	3,618
Retirement scheme contributions	380	147
Compensation for loss of office as director, paid by the Company	—	11,250
	<b>11,113</b>	<b>22,078</b>

The directors' emoluments of the Company during 2001 included a sum of HK\$6,710,000 paid to certain directors of the Company by the toy and property subsidiaries but not included in the consolidated profit and loss account.

Included in the directors' emoluments were fees of HK\$328,000 (2001: HK\$592,000) paid to the independent non-executive directors during the year.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$Nil - HK\$1,000,000	10	14
HK\$1,000,001 - HK\$1,500,000	1	—
HK\$1,500,001 - HK\$2,000,000	1	1
HK\$2,000,001 - HK\$2,500,000	—	2
HK\$2,500,001 - HK\$3,000,000	1	1
HK\$3,500,001 - HK\$4,000,000	1	—
HK\$11,500,001 - HK\$12,000,000	—	1

# Notes to the Accounts

## (Continued)

### 12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: one) directors whose emoluments are reflected in the analysis presented in note 12(a). The other two individuals include a director of the Company who was appointed on 1 October 2002. The emoluments paid to this director up to 30 September, 2002 and the remaining individual during the year are as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Salaries and other emoluments	<b>3,156</b>	6,132
Performance related incentive payments	<b>990</b>	2,592
Retirement scheme contributions	<b>146</b>	84
Compensation for loss of office		
— contractual payments	—	11,365
	<b>4,292</b>	20,173

The emoluments of the above mentioned two (2001: four) individuals with the highest emoluments fell within the following bands:

<b>Emolument bands</b>	<b>Number of individuals</b>	
	<b>2002</b>	2001
HK\$1,500,001 - HK\$2,000,000	<b>1</b>	—
HK\$2,000,001 - HK\$2,500,000	<b>1</b>	—
HK\$3,500,001 - HK\$4,000,000	—	1
HK\$4,000,001 - HK\$4,500,000	—	1
HK\$5,500,001 - HK\$6,000,000	—	1
HK\$6,000,001 - HK\$6,500,000	—	1

# Notes to the Accounts

## (Continued)

### 13 FIXED ASSETS

#### Group

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1 January 2002	599,330	354,083	110,319	277,088	59,398	13,545	1,413,763
Additions	—	9,015	7,459	36,978	19,019	1,261	73,732
Disposals	(20,212)	(27,103)	(742)	(12,930)	(5,533)	(2,396)	(68,916)
Acquisition of a subsidiary	—	—	—	—	45	—	45
Disposal of subsidiaries	—	(109,952)	(1,415)	(54,543)	(28,246)	(1,388)	(195,544)
Transfer from properties held for sale	42,918	—	—	—	—	—	42,918
Revaluation deficit	(26)	—	—	—	—	—	(26)
At 31 December 2002	622,010	226,043	115,621	246,593	44,683	11,022	1,265,972
Accumulated depreciation and impairment							
At 1 January 2002	—	154,785	81,084	168,383	39,654	10,985	454,891
Charge for the year	—	13,901	12,333	21,565	7,444	844	56,087
Disposals	—	(14,777)	(739)	(8,375)	(5,245)	(1,915)	(31,051)
Disposal of subsidiaries	—	(56,289)	(612)	(26,367)	(10,770)	(1,134)	(95,172)
At 31 December 2002	—	97,620	92,066	155,206	31,083	8,780	384,755
Net book value							
At 31 December 2002	622,010	128,423	23,555	91,387	13,600	2,242	881,217
At 31 December 2001	599,330	199,298	29,235	108,705	19,744	2,560	958,872
The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:							
At cost	—	226,043	115,621	246,593	44,683	11,022	643,962
At valuation	622,010	—	—	—	—	—	622,010
	622,010	226,043	115,621	246,593	44,683	11,022	1,265,972
The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:							
At cost	—	354,083	110,319	277,088	59,398	13,545	814,433
At valuation	599,330	—	—	—	—	—	599,330
	599,330	354,083	110,319	277,088	59,398	13,545	1,413,763

# Notes to the Accounts

(Continued)

## 13 FIXED ASSETS (continued)

- (a) The Group's interests in investment properties and other properties at their net book values are analysed as follows:

	2002		2001	
	Investment properties	Other properties	Investment properties	Other properties
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases of between 10 to 50 years				
Hong Kong	5,110	57,598	6,430	59,155
Outside Hong Kong	616,900	70,825	592,900	140,143
	<b>622,010</b>	<b>128,423</b>	599,330	199,298

- (b) The investment properties were revalued at 31 December 2002 on the open market value basis by independent professional valuers, DTZ Debenham Tie Leung Limited.
- (c) At 31 December 2002, certain investment properties and other properties with a total net book value of approximately HK\$48,420,000 (2001: HK\$50,417,000) were pledged to certain banks to secure general banking facilities granted to the Group. Letters of credit and guarantees amounting to HK\$2,464,000 (2001: HK\$2,088,000) were issued to purchase raw materials as at 31 December 2002. No other banking facilities were utilised as at the year end.

# Notes to the Accounts

## (Continued)

### 14 INTANGIBLE ASSETS

Group	Goodwill arising on consolidation HK\$'000	Intellectual property rights HK\$'000	Total HK\$'000
At 1 January 2001	4,602	18,299	22,901
Additions	20,138	—	20,138
Amortisation	(9,640)	(18,299)	(27,939)
At 31 December 2001	15,100	—	15,100
Amortisation during the year	(654)	—	(654)
Disposal of a subsidiary	(14,446)	—	(14,446)
At 31 December 2002	—	—	—

### 15 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares		
— toy and property subsidiaries ( <i>Note (b)</i> )	<b>659,090</b>	659,090
— other subsidiary, at cost	—	56,207
Amounts due from subsidiaries	<b>1,047,175</b>	381,890
Amounts due to subsidiaries	<b>(25,482)</b>	—
Less: provision for amounts due from subsidiaries	—	(62,459)
	<b>1,680,783</b>	1,034,728

# Notes to the Accounts

## (Continued)

### 15 INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

- (a) As described in note 1(b)(i), the results of the toy and property subsidiaries were not consolidated until 31 December 2001. The results of these subsidiaries for the year ended 31 December 2001 were a net loss of HK\$20,996,000.
- (b) The carrying value of the unlisted shares in the toy and property subsidiaries included the following:
- (i) the net book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became their holding company under the Group reorganisation in 1991; and
  - (ii) amounts totalling HK\$572,556,000 due from these subsidiaries as at 4 May 2000 which were waived by the Company and capitalised as part of the carrying value of the unlisted shares of the subsidiaries.
- (c) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.
- (d) Particulars of the principal subsidiaries as at 31 December 2002 are set out in note 38(a).

### 16 INVESTMENTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	25,443	82,587
Share of post acquisition reserves	1,793	3,823
Amounts due from associates	—	1,147
Amounts due to associates	(6,672)	(40,767)
	<b>20,564</b>	46,790

- (a) The amounts due from/to associates are unsecured, interest-free and have no fixed terms of repayment.
- (b) Particulars of the principal associate as at 31 December 2002 are set out in note 38(b).



# Notes to the Accounts

(Continued)

## 17 HELD-TO-MATURITY SECURITIES, LISTED

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed, overseas				
Held-to-maturity securities, at cost	<b>547,849</b>	317,525	—	—
Less: amortisation	<b>(1,328)</b>	(430)	—	—
	<b>546,521</b>	317,095	—	—

As at 31 December 2002, the market value of held-to-maturity securities was approximately HK\$574,924,000 (2001: HK\$315,190,000).

## 18 NON-TRADING SECURITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted, overseas				
Equity securities	<b>73,668</b>	65,258	<b>106,803</b>	95,562
Convertible notes	<b>19,500</b>	19,500	<b>19,500</b>	19,500
Less: impairment provision	<b>(93,168)</b>	(84,758)	<b>(126,303)</b>	(115,062)
	—	—	—	—

The Group's investments in unlisted non-trading securities are mainly in entities engaged in Internet business-to-business e-commerce activities. On 31 January 2002, the Group reduced its ownership of Whizz-Work Holdings Limited ("Whizz-Work") from 75% to 15%. Upon reduction, the Group reclassified its investment in Whizz-Work as non-trading securities, and also made an impairment provision of HK\$8,410,000 against its carrying value. The directors have reviewed the carrying values of these investments and considered it appropriate to make an impairment provision against these investments.

# Notes to the Accounts

## (Continued)

### 19 LOANS RECEIVABLE

	Group	
	2002 HK\$'000	2001 HK\$'000
Loans receivable	18,142	23,889
Less: amount due within one year	(2,770)	(5,743)
	<b>15,372</b>	18,146

The loans receivable of HK\$18,142,000 as at 31 December 2002 (2001: HK\$20,774,000) represented the net amount of unsecured loans advanced by the Group to a third party (the "Third Party") to finance the Third Party to construct factory buildings in the People's Republic of China. The Third Party leased the factory buildings back to the Group and used the rent derived thereon to repay the principal and the interest. The loans bear interest at a range of Hong Kong dollar prime rate to 2% above Hong Kong dollar prime rate.

The remaining balance of HK\$3,115,000 in 2001 represented an amount advanced to a related company of the minority shareholder of a subsidiary of the Group. The amount was settled during the year.

### 20 CURRENT ASSETS

	Note	Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Inventories	21	195,168	175,954	—	—
Properties held for sale	22	46,782	89,700	—	—
Trade receivables, net of provision		241,108	191,601	—	—
Deposits, prepayments and other receivables		144,816	106,547	946	4,356
Loan receivable due within one year	19	2,770	5,743	—	—
Trading securities	23	1,191	1,861	—	—
		<b>631,835</b>	571,406	<b>946</b>	4,356
Deposits with banks		776,356	951,739	563,206	817,551
Cash at bank and in hand		248,638	146,972	14,869	1,508
		<b>1,656,829</b>	1,670,117	<b>579,021</b>	823,415

# Notes to the Accounts

(Continued)

## 20 CURRENT ASSETS (continued)

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. As at 31 December 2002, the ageing analysis of trade receivables based on the date of invoice is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
0-30 days	153,717	129,644	—	—
31-60 days	58,275	31,754	—	—
61-90 days	6,955	8,285	—	—
Over 90 days	22,161	21,918	—	—
	<b>241,108</b>	191,601	—	—

## 21 INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	90,872	104,233
Work in progress	45,887	35,630
Finished goods	58,409	36,091
	<b>195,168</b>	175,954

As at 31 December 2002, raw materials of HK\$2,420,000 (2001: HK\$3,160,000), work in progress of HK\$118,000 (2001: HK\$93,000) and finished goods of HK\$35,000 (2001: HK\$94,000) are carried at net realisable value.

## 22 PROPERTIES HELD FOR SALE

The Group's properties held for sale are held under medium term leases and are situated in the People's Republic of China. As at 31 December 2002, all of the Group's properties held for sale are carried at net realisable value.

# Notes to the Accounts

(Continued)

## 23 TRADING SECURITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Equity securities at market value, listed		
— Hong Kong	1,040	1,736
— Overseas	151	125
	<b>1,191</b>	1,861

## 24 CURRENT LIABILITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables	227,447	144,184	—	—
Other creditors and accruals	285,916	285,195	5,300	18,784
Taxation	40,376	34,070	—	—
	<b>553,739</b>	463,449	<b>5,300</b>	18,784

At 31 December 2002, the ageing analysis of trade payables is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
0-30 days	143,655	65,735	—	—
31-60 days	24,913	23,126	—	—
61-90 days	4,191	3,494	—	—
Over 90 days	54,688	51,829	—	—
	<b>227,447</b>	144,184	<b>—</b>	—

# Notes to the Accounts

## (Continued)

### 25 DEFERRED TAXATION

The movement on the deferred tax liabilities is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1 January	655	—
Inclusion of toy and property subsidiaries on consolidation — accelerated depreciation allowances	—	655
Transfer to profit and loss account (Note 6)	<b>(342)</b>	—
At 31 December	<b>313</b>	655

The potential deferred tax asset of the Group not provided for is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Unutilised tax losses	<b>19,514</b>	45,416

### 26 MINORITY INTERESTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Equity interests	<b>76,378</b>	98,778
Loans from minority shareholders	<b>46,365</b>	78,402
	<b>122,743</b>	177,180

Loans from minority shareholders are unsecured, non-interest bearing and have no fixed terms of repayments.

# Notes to the Accounts

## (Continued)

### 27 SHARE CAPITAL

	2002		2001	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	20,000,000,000	2,000,000	20,000,000,000	2,000,000
Issued and fully paid:				
At 1 January	5,610,000,263	561,000	5,550,497,775	555,050
Issue of shares (Note 28(a))	—	—	59,502,488	5,950
At 31 December	5,610,000,263	561,000	5,610,000,263	561,000

The Company has warrants outstanding entitling the holders to subscribe in cash at any time on or after 4 May 2000 and until 3 May 2003 for ordinary shares up to 1,095,000,000 shares (2001:1,095,000,000) in the Company at a price of HK\$0.39 per share. During the year, no warrants were exercised and the warrants remained outstanding as at 31 December 2002.

### 28 TREASURY SHARES

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1 January	13,478	30,622
Ordinary shares issued to Whizz-Work (Note (a))	—	13,478
Disposal of treasury shares related to MegaVillage.com Holdings Limited (Note (b))	—	(30,622)
Disposal of treasury shares related to Whizz-Work (Note (a))	(13,478)	—
At 31 December	—	13,478

# Notes to the Accounts

## (Continued)

### 28 TREASURY SHARES (continued)

Notes:

(a) In 2001, the Company issued 59,502,488 ordinary shares in the Company to Whizz-Work as part of the consideration to acquire a 75% equity interest in Whizz-Work. At 31 December 2001, Whizz-Work still held the ordinary shares in the Company. The consideration from issue of these shares, to the extent of the Group's equity interest, has been accounted for as treasury shares and shown as a deduction from shareholders' equity in the consolidated balance sheet.

As described in note 18, the Group reduced its equity interest in Whizz-Work from 75% to 15% in January 2002 and the investment in Whizz-Work was reclassified as non-trading securities.

(b) In 2000, the Company issued certain ordinary shares to MegaVillage.com Holdings Limited ("MegaVillage") as part of the consideration to subscribe for shares in MegaVillage. In 2001, the Group's shareholding in MegaVillage was reduced from 52.95% to 19.9% and the investment in MegaVillage was reclassified as non-trading securities.

### 29 RESERVES

#### Group

	Share premium	Capital redemption reserve	Capital reserve on consolidation	Exchange reserve	Legal reserve	Merger reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	1,495,889	3,558	46,244	(21,137)	200	72	312,488	1,837,314
Profit for the year	—	—	—	—	—	—	105,075	105,075
Realisation of reserves on disposal of subsidiaries	—	—	67	6,884	—	—	—	6,951
Realisation of reserve on disposal of an associate	—	—	—	5,668	—	—	—	5,668
Realised gain on disposal of treasury shares	—	—	—	—	—	—	12,719	12,719
Exchange translation differences	—	—	—	(869)	—	—	—	(869)
Dividend paid	—	—	—	—	—	—	(84,150)	(84,150)
At 31 December 2002	1,495,889	3,558	46,311	(9,454)	200	72	346,132	1,882,708
Retained by:								
Company and subsidiaries	1,495,889	3,558	46,311	(4,698)	200	72	339,583	1,880,915
Associates	—	—	—	(4,756)	—	—	6,549	1,793
	1,495,889	3,558	46,311	(9,454)	200	72	346,132	1,882,708

# Notes to the Accounts

## (Continued)

### 29 RESERVES (continued)

#### Group

	Share premium	Capital redemption reserve	Capital reserve on consolidation	Exchange reserve	Legal reserve	Merger reserve	Retained profits/ losses (accumulated)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	1,483,869	3,558	—	31	—	—	(345,688)	1,141,770
Issue of new shares	12,020	—	—	—	—	—	—	12,020
Profit for the year	—	—	—	—	—	—	680,602	680,602
Inclusion of the toy and property subsidiaries on consolidation	—	—	46,244	(20,905)	200	72	—	25,611
Realised loss on disposal of treasury shares	—	—	—	—	—	—	(22,426)	(22,426)
Exchange translation differences	—	—	—	(263)	—	—	—	(263)
<b>At 31 December 2001</b>	<b>1,495,889</b>	<b>3,558</b>	<b>46,244</b>	<b>(21,137)</b>	<b>200</b>	<b>72</b>	<b>312,488</b>	<b>1,837,314</b>
Retained by:								
Company and subsidiaries	1,495,889	3,558	46,244	(3,817)	200	72	277,859	1,820,005
Associates	—	—	—	(17,320)	—	—	34,629	17,309
	<b>1,495,889</b>	<b>3,558</b>	<b>46,244</b>	<b>(21,137)</b>	<b>200</b>	<b>72</b>	<b>312,488</b>	<b>1,837,314</b>

As at 31 December 2002, an amount of HK\$6,546,000 of the Group's retained profits attributable to certain PRC subsidiaries and associates represents statutory reserve which is not available for distribution.

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda (as amended).

The legal reserve of the Group represents 20% of the capital of a subsidiary, which was incorporated in Macau, set aside as required under Macau's regulations.

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.



# Notes to the Accounts

## (Continued)

### 29 RESERVES (continued)

Company	Share	Capital	Contributed	Retained	Total
	premium	redemption	surplus	profits/	
	HK\$'000	reserve	HK\$'000	(accumulated	HK\$'000
		HK\$'000		losses)	
				HK\$'000	HK\$'000
At 1 January 2002	1,495,889	3,558	85,606	(306,694)	1,278,359
Profit for the year	—	—	—	499,295	499,295
Dividend paid	—	—	(84,150)	—	(84,150)
At 31 December 2002	1,495,889	3,558	1,456	192,601	1,693,504

  

Company	Share	Capital	Contributed	Retained	Total
	premium	redemption	surplus	profits/	
	HK\$'000	reserve	HK\$'000	(accumulated	HK\$'000
		HK\$'000		losses)	HK\$'000
				HK\$'000	HK\$'000
At 1 January 2001	1,483,869	3,558	85,606	(402,370)	1,170,663
Issue of new shares	12,020	—	—	—	12,020
Profit for the year	—	—	—	95,676	95,676
At 31 December 2001	1,495,889	3,558	85,606	(306,694)	1,278,359

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

# Notes to the Accounts

(Continued)

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2002 HK\$'000	2001 HK\$'000
Operating profit/(loss)	128,824	(277,240)
Interest income	(43,398)	(50,835)
Dividend income from trading securities	(98)	—
Dividend income from an associate	1,410	—
Depreciation of fixed assets	56,087	8,380
Deficit on revaluation of investment properties	26	—
Amortisation of goodwill and intangible assets	654	27,939
Impairment provision for non-trading securities	8,410	84,758
Gain on disposal of subsidiaries	(2,421)	—
Loss on disposal of an associate	—	49,413
Premium amortised on held-to-maturity securities, listed	898	430
Loss on disposal of fixed assets	676	9,006
Net realised and unrealised (gains)/losses on trading securities	(536)	4,940
Operating profit/(loss) before working capital changes	150,532	(143,209)
Increase in trade and other receivables	(32,447)	(8,141)
Decrease in loans receivable	5,747	—
Decrease in amounts due from fellow subsidiaries	—	607
(Increase)/decrease in inventories	(21,180)	317
Decrease in pledged bank deposits	2,711	—
Increase in trade and other payables	86,662	4,372
Decrease in amount due to ultimate holding company	—	(3,882)
Exchange differences	(841)	(275)
Net cash inflow/(outflow) generated from operations	191,184	(150,211)

# Notes to the Accounts

## (Continued)

### 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Purchase of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	45	2,377
Treasury shares	—	17,970
Inventories	745	987
Trade and other receivables	28,326	12,601
Trade and other payables	(31,016)	(7,428)
Trading securities	6	—
Taxation	(2,451)	—
Minority interests	(1,637)	(12,069)
Cash and cash equivalents	7,224	23,040
	<b>1,242</b>	37,478
Goodwill arising on consolidation	—	20,138
	<b>1,242</b>	57,616
Satisfied by:		
Allotment of shares	—	17,970
Cash paid	1,242	39,646
	<b>1,242</b>	57,616

#### Analysis of net cash outflow in respect of purchase of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(1,242)	(39,646)
Cash and cash equivalents acquired	7,224	23,040
Net cash inflow/(outflow) in respect of purchase of subsidiaries	<b>5,982</b>	(16,606)

#### Note:

The results of the subsidiaries acquired during the year and attributable to the Group were a profit of HK\$319,000 (2001: loss of HK\$10,405,000) and the net assets as at 31 December 2002 were HK\$2,403,000 (2001: HK\$45,802,000).

# Notes to the Accounts

## (Continued)

### 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	100,372	3,596
Intangible assets	14,446	—
Investments in associates	25,493	—
Inventories	2,711	—
Trade and other receivables	24,774	2,231
Trade and other payables	(37,958)	(4,536)
Taxation	—	(309)
Minority interests	(50,723)	(1,812)
Cash and cash equivalents	66,142	48,501
	<b>145,257</b>	47,671
Exchange reserve realised	6,884	—
Capital reserve on consolidation realised	67	—
Gain on disposal	2,421	—
	<b>154,629</b>	47,671
Satisfied by:		
Cash	95,924	43,138
Included in non-trading securities	8,410	4,533
Included in other receivables	50,295	—
	<b>154,629</b>	47,671

Analysis of net cash inflow/(outflow) in respect of disposal of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	95,924	43,138
Cash and cash equivalents disposed of	(66,142)	(48,501)
Net cash inflow/(outflow) in respect of disposal of subsidiaries	<b>29,782</b>	(5,363)

Note:

The results of the subsidiaries disposed of during the year and attributable to the Group were a profit of HK\$4,441,000 (2001: loss of HK\$35,583,000).

# Notes to the Accounts

(Continued)

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Net assets at the date of inclusion of the toy and property subsidiaries on consolidation on 31 December 2001 were as follows:

	2001 HK\$'000
Fixed assets	955,876
Investments in associates	46,790
Loans receivable	23,889
Inventories	175,284
Properties held for sale	89,700
Trade and other receivables	264,467
Trading securities	1,861
Pledged bank deposits	10,090
Cash and cash equivalents	255,155
Trade and other payables	(398,341)
Taxation	(34,068)
Deferred taxation	(655)
Loans from minority shareholders	(78,402)
Minority interests - equity	(93,002)
	1,218,644

Analysis of net inflow of cash and cash equivalents in respect of inclusion of the toy and property subsidiaries on consolidation:

	2001 HK\$'000
Cash and cash equivalents	255,155

# Notes to the Accounts

(Continued)

## 31 CONTINGENT LIABILITIES

- (a) As at 31 December 2002, mortgage loan facilities totalling HK\$5,720,000 (2001: HK\$9,666,000) were granted by certain banks to purchasers of the Group's properties in China and these were secured by a subsidiary's guarantees and a pledge of the Group's bank deposits of approximately HK\$7,379,000 (2001: HK\$10,090,000).
- (b) One of the Group's subsidiaries (the "Subsidiary") was named in a law suit brought by a contractor relating to a property of the Group situated in the PRC since 1999. The dispute mainly includes outstanding balance of development costs, penalties on delay of construction and related damages. The amount due to this contractor has been fully accrued. While the final outcome of the proceedings is uncertain, in the opinion of the directors, any additional liability (if any) will not have a material impact on the Group's financial position.

## 32 CAPITAL COMMITMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	6,515	15,206
Authorised but not contracted for	65,212	14,470
	<b>71,727</b>	29,676

# Notes to the Accounts

(Continued)

## 33 OPERATING LEASES

- (a) As at 31 December 2002, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Not later than one year	<b>29,169</b>	29,497	—	—
Later than one year and not later than five years	<b>28,987</b>	20,639	—	—
Later than five years	<b>2,124</b>	3,702	—	—
	<b>60,280</b>	53,838	—	—

- (b) As at 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Not later than one year	<b>36,485</b>	33,736	—	—
Later than one year and not later than five years	<b>137,617</b>	130,646	—	—
Later than five years	<b>61,888</b>	95,067	—	—
	<b>235,990</b>	259,449	—	—

# Notes to the Accounts

(Continued)

## 34 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year, the Group had significant transactions with related parties, details of which are as follows:

(i) The Group had transactions with minority shareholders and their affiliates during the year as follows:

	HK\$'000
Rental expenses	19,447
Management fee expenses	3,758
	<u>23,205</u>

The above transactions were carried out in the normal course of business at terms determined and agreed by both parties.

(ii) On 31 January 2002, the Group entered into a Share Repurchase Agreement, a Shareholders' Agreement and an Option Agreement with Whizz-Work pursuant to which Whizz-Work agreed to repurchase 1,737,557 shares in Whizz-Work from the Group ("the First Share Repurchase") for a cash consideration of US\$5,850,000 (equivalent to approximately HK\$45,630,000). Upon completion of the First Share Repurchase, the Group's interest in Whizz-Work has been reduced from 75% to 15% and the Group recorded a loss of HK\$2,455,000 on the said reduction of interest. Pursuant to the Option Agreement, the Group has been granted a put option to require Whizz-Work to repurchase an additional 36,200 shares in Whizz-Work, representing 5% of the issued shares of Whizz-Work immediately following the First Share Repurchase, from the Group for a cash consideration of US\$200,000 (equivalent to approximately HK\$1,560,000). The put option is exercisable at any time between 31 January 2006 and 31 January 2009.



# Notes to the Accounts

(Continued)

## 34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

- (iii) The Group entered into a surrender agreement with The Centre (67) Limited (“the landlord”), a wholly owned subsidiary of a substantial shareholder of Hutchison Whampoa Limited. According to the agreement, the landlord received a lump sum of approximately HK\$3,622,000 for early termination of a lease with effect from 19 June 2002 on the terms and conditions stated therein. The lease was related to a premise of the entire 67th floor of The Centre with the term of three years from 1 May 2000 to 30 April 2003 at an average monthly rental of approximately HK\$776,800 including management fee and air-conditioning charges.
- (iv) The Group manufactured a range of products including the cap covers, injection moulds, premium items and mobile phone accessories for subsidiaries of Hutchison Whampoa Limited. The aggregate invoiced amount for the year was approximately HK\$5,574,000.

(b) In 2001, the Group had significant transactions with related parties, details of which are as follows:

- (i) On 24 August 2000, the Company entered into a Stock Purchase Agreement with FreeBorders, Inc (“FreeBorders”) pursuant to which the Group acquired 2,066,420 shares of Series B Preferred Stock in FreeBorders for a consideration of US\$5,600,000 (equivalent to approximately HK\$43,700,000). On 10 November 2000, the Company entered into an Agreement and Plan of Merger and Reorganization pursuant to which the Company agreed to subscribe for convertible notes of FreeBorders for a total sum of US\$2,500,000 (equivalent to approximately HK\$19,500,000). The subscriptions were completed in April and July 2001. FreeBorders has been an associate of Internet Capital Group, Inc. (“ICG”) which had been the Company’s ultimate holding company prior to 12 July 2001.

# Notes to the Accounts

## (Continued)

### 34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

- (ii) On 21 February 2001, the Company entered into an Asset Purchase Agreement with ICG and ICG Japan K.K. ("ICGJ") under which the Company agreed to acquire all non-cash assets of ICGJ. The consideration was approximately HK\$33,000,000. ICG had been the Company's ultimate holding company prior to 12 July 2001.
- (iii) On 22 June 2001, the Company entered into a Restructuring Agreement with MegaVillage pursuant to which MegaVillage agreed to waive in full a payment of US\$5,000,000 (approximately HK\$39,000,000) payable by the Company in consideration for the sale of 35,000,001 ordinary shares in MegaVillage by the Company to MegaVillage. After the completion of the Restructuring Agreement, the Company's interest in MegaVillage was reduced from 52.95% to 19.9%.
- (iv) On 26 June 2001, the Company entered into a Share Purchase Agreement to acquire 19.9% shareholding in a subsidiary, Breakaway Solutions Asia Pacific Limited ("BSAP"), for a consideration of US\$500,000 (approximately HK\$3,900,000). Upon completion of the acquisition in July 2001, BASP became a wholly owned subsidiary of the Company. In November 2001, the Group disposed of 90% of its shareholding in BASP for a consideration of approximately US\$5,300,000 (approximately HK\$41,300,000).
- (v) The Company entered into a Put Option Deed on 9 March 2000 (as amended by supplemental deed dated 29 March 2000) and a Management Service Agreement ("MSA") on 28 April 2000 in respect of the toy and property subsidiaries.

Pursuant to the Put Option Deed entered into between the Company and Shamrock Green Limited ("Shamrock"), the Company was entitled to sell to Shamrock the toy and property subsidiaries for a consideration of approximately HK\$225,000,000 during the period from 4 May 2000 to 3 May 2002. The Company's ultimate holding company, Hutchison Whampoa Limited has a 50% indirect interest in Shamrock. The other 50% is owned by two companies controlled by Dr. Luk Chung Lam, the former director of the Company.

# Notes to the Accounts

(Continued)

## 34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(v) (continued)

Under the MSA entered into between the Company, certain directors/senior management of the Company comprising Dr. Luk Chung Lam, Messrs. Ko Yuet Ming, Tam Yue Man and Luk Tei, Lewis and Harbour Ring Group Limited ("HRG"), a company controlled by these directors/senior management, the Company gave HRG the exclusive right to manage and operate the toy and property subsidiaries including without limitation to control the dividend policies during the duration of the Put Option Deed.

On 19 December 2001, the Company entered into two separate deeds for cancellation of the Put Option Deed and the termination of the MSA with effect from 31 December 2001.

## 35 SUBSEQUENT EVENTS

On 25 February 2003, the Group entered into a Sale and Purchase Agreement with a third party to dispose of an equity interest of 80.1% in a wholly owned subsidiary. The net asset value of the subsidiary attributable to the Group as at 31 December 2002 was approximately HK\$4,000,000.

## 36 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Hutchison Whampoa Limited, which is incorporated and listed in Hong Kong.

## 37 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18 March 2003.

# Notes to the Accounts

## (Continued)

### 38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE

(a) Details of the principal subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
* Hutchison Harbour Ring Holdings Limited	Cayman Islands	US\$1 ordinary share	100	Portfolio investment
* Harbour Ring Toys Group Limited	British Virgin Islands	US\$1,000 ordinary shares	100	Investment holding
* Harbour Ring Property Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	Investment holding
Acefield Limited	Hong Kong	HK\$100,000 ordinary shares  HK\$2,000,000 non-voting deferred shares	100	Trading of moulds, materials and provision of management services
Asian Toy Institute Inc.	PRC/ British Virgin Islands	US\$1 ordinary share	100	Investment holding and provision of educational services
Billymax Investments Limited	Hong Kong	HK\$2 ordinary shares	100	Property holding
Canyield Printing Company Limited	Hong Kong	HK\$100 ordinary shares	100	Manufacture of colour packaging boxes
Cardner International Inc.	Macau/ British Virgin Islands	US\$200 ordinary shares	100	Trading of toys

# Notes to the Accounts

## (Continued)

### 38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (continued)

#### (a) (continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
Champaint Industrial Limited	Hong Kong	HK\$2 ordinary shares	100	Manufacture of paints
Champion Paper Factory Limited	Hong Kong	HK\$500,000 ordinary shares	100	Manufacture of paper boxes
Coronet Toys Company Limited	Hong Kong	HK\$100,000 ordinary shares HK\$200,000 non-voting deferred shares	100	Trading of moulds and provision of management services
# Dongguan Crown-Ace Toys Co., Ltd.	PRC	HK\$70,890,000 registered capital	95.18	Manufacture of toys
Goodway Electronic Technology Limited	Hong Kong	HK\$5,000,000 ordinary shares	100	Manufacture and trading of electronics toys
Harbour Ring Industries Limited	Hong Kong	HK\$2 ordinary shares HK\$1,000,000 non-voting deferred shares	100	Investment holding and provision of management services
Harbour Ring Property Development Limited	Hong Kong	HK\$1,000 ordinary shares	100	Real estate agency, provision of project management services and trading of listed investments
i.Tech Dynamic Limited	Hong Kong	HK\$10,000 ordinary shares HK\$850,000 non-voting deferred shares	100	Trading of electronic technology and premium products
Macau International Toys Limited	Hong Kong	HK\$9,998 ordinary shares HK\$2 non-voting deferred shares	100	Provision of management services and trading of moulds

# Notes to the Accounts

## (Continued)

### 38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (continued)

#### (a) (continued)

Name of subsidiary	Place of operations/ incorporation	Particulars of issued/registered capital	Group's effective interest %	Principal activity
P & H Development Limited	Hong Kong	HK\$7 ordinary shares  HK\$3 non-voting deferred shares	100	Investment holding
# Guangzhou Panyu Shawan Acefield Toys Co., Ltd.	PRC	HK\$46,800,000 registered capital	96.75	Manufacture of toys
# Shanghai Gang Lu Real Estate Development Co., Ltd.	PRC	US\$16,000,000 registered capital	88	Property holding
# Shanghai Pu Gang Real Estate Development Co., Ltd.	PRC	US\$7,000,000 registered capital	80	Property holding
Try Electronics Japan Limited	Japan	JPY30,000,000 registered capital	65	Trading of toys
Zhongshan Coronet Toys Ltd.	PRC	HK\$41,000,000 registered capital	100	Manufacture of toys
# Zhongshan International Toys Ltd.	PRC	HK\$138,000,000 registered capital	75.6	Manufacture of toys

The non-voting deferred shares practically carry no rights to dividends or receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

\* Shares held directly by the Company

# Sino-foreign equity joint ventures

# Notes to the Accounts

(Continued)

## 38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND ASSOCIATE (continued)

(b) Particulars of the principal associate as at 31 December 2002 are as follows:

Name of associate	Place of operations/ incorporation	Particulars of registered capital	Group's effective interest %	Principal activity
Shanghai Jia Hua Real-Estate Development Co., Ltd.	PRC	US\$5,000,000	50	Property holding

The above tables list the principal subsidiaries and associate of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.