

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2002

1. GENERAL

The Company is a public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed at the annual general meeting held on 24th May 2002, the Company adopted a Chinese name "紅發集團有限公司" for identification and registration purposes with effect from 3rd July 2002.

The principal activities of the Group are the design, manufacture and sale of toys.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods.

Foreign currencies

The revisions to SSAP 11 Foreign Currency Translation have eliminated the choice of translating the income statements of subsidiaries operating outside Hong Kong at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as either operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee Benefits

In the current year, the Group has adopted SSAP 34 Employee Benefits, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 have been eliminated on consolidation.

Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill arising on acquisitions on or after 1st January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment, other than land and buildings, are stated at cost less depreciation and impairment loss, if any. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less subsequent depreciation and impairment loss, if any. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any increase arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Depreciation is provided to write off the cost or valuation of property, plant and equipment, over their estimated useful lives using the straight-line method as follows:

Category of assets	Estimated useful lives
Leasehold land	Over the remaining term of the lease
Buildings	20 to 25 years or over the term of the land lease, if shorter
Plant and machinery	5 years
Moulds and tools	3 years
Other tangible fixed assets	4 to 5 years

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents 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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in securities (Cont'd)

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Other securities, being securities acquired for dealing purposes, are measured at fair value with unrealised gains and losses included in net profit or loss for the year.

Operating leases

Operating leases are leases whereby substantially all the risks and rewards of ownership of the assets remain with the lessors. Rentals payable (receivable) under operating leases are charged (credited) to the income statement on a straight-line basis over the relevant lease terms.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of foreign subsidiaries are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments are recognised when the sale agreements become unconditional and it is probable that the economic benefits associated with the sales will flow to the Group.

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

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

Rental income in respect of properties is recognised on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group is principally engaged in the design, manufacture and sales of toys. Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year. The businesses based upon which the Group reports its primary segment information are as follows:

Own Brand	—	Manufacture of toys designed/developed by the Group and sold under the Group's brand name or the labels of licensors.
OEM/ODM	—	Manufacture of toys with design originated from customers and where the toolings are owned by customers.
Moulds	—	Manufacture of moulds for sale to customers.

Segment information about these businesses is presented below.

RESULTS AND REVENUE

Year ended 31st December 2002

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	<u>516,842</u>	<u>86,849</u>	<u>1,714</u>	<u>605,405</u>
RESULT				
Segment result	<u>125,358</u>	<u>14,244</u>	<u>204</u>	139,806
Interest and other income				5,952
Decrease on revaluation of properties				(538)
Unallocated corporate expenses				<u>(40,935)</u>
Profit from operations				104,285
Finance costs				<u>(48)</u>
Profit before taxation				104,237
Income tax expense				<u>(8,045)</u>
Net profit for the year				<u>96,192</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

BALANCE SHEET

At 31st December 2002

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	124,582	21,487	2,793	148,862
Investment properties				4,400
Investments in securities				56,521
Unallocated corporate assets				433,281
Consolidated total assets				<u>643,064</u>
LIABILITIES				
Segment liabilities	23,252	11,083	432	34,767
Unallocated corporate liabilities				58,574
Consolidated total liabilities				<u>93,341</u>

OTHER INFORMATION

Year ended 31st December 2002

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Unallocated HK\$'000	Total HK\$'000
ASSETS					
Capital additions	17,959	—	198	22,560	40,717
Depreciation of property, plant and equipment	31,277	4,124	946	3,171	39,518
Loss on disposal of property, plant and equipment	—	—	—	71	71
Allowance for doubtful debts	503	—	—	—	503
Net unrealised holding loss on dealing securities	—	—	—	555	555
Decrease on revaluation of properties	—	—	—	538	538
	<u>—</u>	<u>—</u>	<u>—</u>	<u>538</u>	<u>538</u>

RESULTS AND REVENUE

Year ended 31st December 2001

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	<u>444,466</u>	<u>112,239</u>	<u>4,462</u>	<u>561,167</u>
RESULT				
Segment result	<u>113,009</u>	<u>19,769</u>	<u>562</u>	133,340
Interest and other income				10,097
Increase on revaluation of properties				1,462
Unallocated corporate expenses				(42,277)
Profit from operations				102,622
Finance costs				(34)
Profit before taxation				102,588
Income tax expense				(10,668)
Net profit for the year				<u>91,920</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

BALANCE SHEET

At 31st December 2001

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	129,492	28,619	5,076	163,187
Investment properties				4,600
Investments in securities				36,910
Unallocated corporate assets				389,163
Consolidated total assets				<u>593,860</u>
LIABILITIES				
Segment liabilities	20,277	12,995	1,671	34,943
Unallocated corporate liabilities				59,109
Consolidated total liabilities				<u>94,052</u>

OTHER INFORMATION

Year ended 31st December 2001

	Own Brand HK\$'000	OEM/ ODM HK\$'000	Moulds HK\$'000	Unallocated HK\$'000	Total HK\$'000
ASSETS					
Capital additions	15,762	—	204	32,414	48,380
Depreciation of property, plant and equipment	<u>29,216</u>	<u>5,518</u>	<u>1,056</u>	<u>3,843</u>	<u>39,633</u>

Geographical segments

The marketing of the Group's products is substantially carried out in Hong Kong while the Group's manufacturing activities are carried out in other regions in the People's Republic of China (the "PRC").

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2002 HK\$'000	2001 HK\$'000
North America		
United States of America	263,663	230,078
Canada	44,026	60,607
Europe	219,445	191,919
Asia	43,884	52,189
Other locations	34,387	26,374
	<u>605,405</u>	<u>561,167</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	278,566	237,408	194	828
Other regions in the PRC	298,224	288,836	40,385	47,382
Other locations	66,274	67,616	138	170
	<u>643,064</u>	<u>593,860</u>	<u>40,717</u>	<u>48,380</u>

5. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Other operating income includes:		
Interest on bank deposits	1,925	3,569
Yield on held-to-maturity securities	2,635	1,832
Dividends from listed securities	36	36
Rentals from investment properties	312	317
	<u>312</u>	<u>317</u>

6. (DECREASE) INCREASE ON REVALUATION OF PROPERTIES

	2002 HK\$'000	2001 HK\$'000
(Decrease) increase on revaluation of properties		
Land and buildings for own use	(338)	1,462
Investment properties	(200)	—
	<u>(538)</u>	<u>1,462</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

7. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	800	793
Depreciation of property, plant and equipment	39,518	39,633
Loss (gain) on disposal of property, plant and equipment	71	(160)
Research and development expenditure	9,386	8,572
Staff costs including directors' remuneration (see note below)	102,303	93,386
Net realised loss on dealing securities	49	102
Net unrealised holding loss (gain) on dealing securities	555	(460)
Net exchange loss	268	576

Note:

The staff costs disclosed above include the Group's contributions to retirement benefit schemes amounting to HK\$2,305,000 (2001: HK\$1,999,000).

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts	48	34

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Directors' fees	752	675
Other emoluments		
Basic salaries, allowances and benefits-in-kind	5,250	5,212
Performance related incentive payments	3,980	3,910
Retirement benefit scheme contributions	266	266
Total emoluments	<u>10,248</u>	<u>10,063</u>

The amounts disclosed above include directors' fees of HK\$250,000 (2001: HK\$200,000) and HK\$502,000 (2001: HK\$475,000) paid or payable to two (2001: two) independent non-executive directors and three (2001: three) non-executive directors respectively.

The emoluments of the directors are within the following bands:

HK\$	2002 Number of directors	2001 Number of directors
4,500,001 – 5,000,000	1	–
4,000,001 – 4,500,000	–	1
1,000,001 – 1,500,000	4	3
Nil – 1,000,000	<u>5</u>	<u>7</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

The emoluments of the five highest paid employees which included four (2001: four) directors are set out below:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, allowances and other benefits-in-kind	5,016	5,212
Performance related incentive payments	4,449	3,910
Retirement benefit scheme contributions	225	266
	<u>9,690</u>	<u>9,388</u>

Their emoluments are within the following bands:

HK\$	2002 Number of employees	2001 Number of employees
4,500,001 – 5,000,000	1	–
4,000,001 – 4,500,000	–	1
1,000,001 – 1,500,000	4	3
Nil – 1,000,000	<u>–</u>	<u>1</u>

10. INCOME TAX EXPENSE

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Tax on profit for the year		
Hong Kong	3,449	6,948
The PRC	5,944	4,670
Other jurisdictions	8	24
	<u>9,401</u>	<u>11,642</u>
Prior years' overprovision		
Hong Kong	(1,498)	(1,264)
The PRC	(1,000)	–
Other jurisdictions	(513)	–
	<u>(3,011)</u>	<u>(1,264)</u>
Deferred taxation (note 23)	<u>1,655</u>	<u>290</u>
Taxation attributable to the Group	<u>8,045</u>	<u>10,668</u>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

Tax liabilities arising in the PRC and other jurisdictions are calculated at the applicable rates prevailing in the relevant jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

11. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid HK5 cents (2001: HK5 cents) per ordinary share	18,416	18,088
Final dividend proposed HK10 cents (2001: HK10 cents) per ordinary share	36,800	36,856
Special cash dividend proposed HK5 cents (2001: Nil) per ordinary share	18,400	—
	<u>73,616</u>	<u>54,944</u>

The final dividend of HK10 cents per ordinary share and the special cash dividend of HK5 cents per ordinary share have been proposed by the directors and are subject to approval by the shareholders in general meeting.

The amounts of final dividend and special cash dividend proposed are calculated based on the number of shares in issue as at the date of approval of these financial statements.

12. EARNINGS PER SHARE

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

	2002 HK\$'000	2001 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>96,192</u>	<u>91,920</u>
	Number of shares '000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	368,446	361,944
Effect of dilutive potential shares in respect of share options	<u>1,916</u>	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>370,362</u>	<u>361,944</u>

No diluted earnings per share figure has been presented for the year ended 31st December 2001 because the exercise price of the share options granted by the Company was higher than the average market price for shares for that year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Moulds and tools HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st January 2002	177,100	96,169	98,598	55,282	6,844	433,993
Additions	—	18,878	17,821	4,018	—	40,717
Disposals	—	(2,572)	(359)	(135)	—	(3,066)
Revaluation decrease	(7,300)	—	—	—	—	(7,300)
At 31st December 2002	<u>169,800</u>	<u>112,475</u>	<u>116,060</u>	<u>59,165</u>	<u>6,844</u>	<u>464,344</u>
Comprising:						
At cost	—	112,475	116,060	59,165	6,844	294,544
At 2002 valuation	<u>169,800</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>169,800</u>
	<u>169,800</u>	<u>112,475</u>	<u>116,060</u>	<u>59,165</u>	<u>6,844</u>	<u>464,344</u>
DEPRECIATION						
At 1st January 2002	—	69,257	89,554	32,203	5,098	196,112
Provided for the year	7,138	12,010	12,681	7,179	510	39,518
Eliminated on disposals	—	(1,390)	(295)	(132)	—	(1,817)
Eliminated on revaluation	(7,138)	—	—	—	—	(7,138)
At 31st December 2002	<u>—</u>	<u>79,877</u>	<u>101,940</u>	<u>39,250</u>	<u>5,608</u>	<u>226,675</u>
NET BOOK VALUES						
At 31st December 2002	<u>169,800</u>	<u>32,598</u>	<u>14,120</u>	<u>19,915</u>	<u>1,236</u>	<u>237,669</u>
At 31st December 2001	<u>177,100</u>	<u>26,912</u>	<u>9,044</u>	<u>23,079</u>	<u>1,746</u>	<u>237,881</u>

An analysis of the net book value of the Group's land and buildings is set out below:

	2002 HK\$'000	2001 HK\$'000
In Hong Kong		
On long lease	39,200	41,000
On medium-term lease	1,100	1,100
In the PRC		
On medium-term lease	129,500	135,000
	<u>169,800</u>	<u>177,100</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group's land and buildings are carried at their open market value, on an existing use basis, on 31st December 2002 as valued by RHL Appraisal Ltd., a firm of independent property valuers. The revaluation gave rise to an increase of HK\$176,000 (2001: HK\$3,886,000), which has been credited to the asset revaluation reserve and a decrease of HK\$338,000 (2001: an increase of HK\$1,462,000) which has been dealt with in the income statement.

At 31st December 2002, had the Group's land and buildings been carried at cost less accumulated depreciation, the carrying amount of such assets included in the financial statements would have been HK\$170,030,000 (2001: HK\$177,654,000).

14. INVESTMENT PROPERTIES

	Land and buildings in Hong Kong on long lease	
	2002 HK\$'000	2001 HK\$'000
THE GROUP		
VALUATION		
At beginning of the year	4,600	4,600
Revaluation decrease	(200)	—
At end of the year	<u>4,400</u>	<u>4,600</u>

The Group's investment properties are carried at their open market value in their existing state on 31st December 2002 as valued by RHL Appraisal Ltd., a firm of independent property valuers. The decrease on revaluation of HK\$200,000 (2001: Nil) has been charged to the income statement.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares	107,146	107,136
Amount due from a subsidiary	186,346	173,793
	<u>293,492</u>	<u>280,929</u>

The amount due from a subsidiary is unsecured, interest free and is not repayable within twelve months from the balance sheet date.

The carrying value of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the group reorganisation implemented in 1995, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

The table below lists the subsidiaries of the Company at 31st December 2002, which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries which are operating in the place in which they are incorporated or registered, unless otherwise indicated, are as follows:—

Name of subsidiary	Place/country of incorporation or registration	Paid-up issued/registered capital	Principal activities
Wholly-owned subsidiary directly held:			
RBI International Investment Limited (i)	British Virgin Islands	Ordinary US\$30,000	Investment holding and trading of securities
Wholly-owned subsidiaries indirectly held:			
Dongguan Tai Fat Toy Factory Ltd. (a foreign wholly-owned enterprise)	The PRC	Registered HK\$24,424,540	Manufacture and sale of toys
Dongguan Tungfat Toy Factory Co. Ltd. (a foreign wholly-owned enterprise)	The PRC	Registered HK\$44,112,039	Manufacture and sale of toys
Hung Fat Toy Factory Limited (ii)	Hong Kong	Ordinary HK\$1,000,000	Manufacture and sale of toys
Motormax Toy Factory Limited	Hong Kong	Ordinary HK\$100,000	Trading of toys
RBI Industries (Shenzhen) Co. Ltd. (a foreign wholly-owned enterprise)	The PRC	Registered HK\$41,901,630	Manufacture and sale of toys
RBI Distributors Ltd.	United Kingdom	Ordinary £2	Trading of toys
RBI Toys Inc.	United States of America	Common Stock US\$1,000	Trading of toys
Red Box Toy Factory Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred (iii) HK\$12,000,000	Design, trading and marketing of toys and investment holding
Tai Fat Toy Factory (China) Limited (ii)	Hong Kong	Ordinary HK\$2,900,000 Non-voting deferred (iii) HK\$5,100,000	Manufacture and sale of toys

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

15. INTERESTS IN SUBSIDIARIES (Cont'd)

- (i) Operating principally in Hong Kong.
- (ii) Operating principally in the PRC.
- (iii) The non-voting deferred shares, which are held by RBI International Investment Limited, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the respective companies or to participate in any distributions on winding up.

None of the subsidiaries had any debt securities outstanding during the year and at the end of the year.

16. AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary was unsecured, interest free and had no fixed repayment terms.

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities, unlisted	55,707	35,692
Dealing equity securities listed in Hong Kong	814	1,218
	<hr/>	<hr/>
	56,521	36,910
Less: Securities included in current assets	(814)	(11,232)
	<hr/>	<hr/>
	55,707	25,678
	<hr/>	<hr/>
Market value of listed securities	814	1,218
	<hr/>	<hr/>

18. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	25,265	22,616
Work in progress	28,996	37,892
Finished goods	42,549	48,311
	<hr/>	<hr/>
	96,810	108,819
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

19. TRADE AND OTHER RECEIVABLES

The Group allows a credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade and other receivables outstanding at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	17,486	20,412
31 – 60 days	8,613	7,827
61 – 90 days	9,014	5,102
Over 90 days	3,994	6,296
	<u>39,107</u>	<u>39,637</u>

20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables outstanding at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	31,526	44,533
31 – 60 days	9,290	1,744
61 – 90 days	2,746	189
Over 90 days	179	801
	<u>43,741</u>	<u>47,267</u>

21. SHARE CAPITAL

	Number of shares		Nominal value	
	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised	<u>800,000</u>	<u>800,000</u>	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:				
At beginning of the year	361,756	330,079	36,176	33,008
Issued pursuant to exercise of share options	7,040	—	704	—
Repurchased and cancelled	(476)	(1,222)	(48)	(122)
Bonus issue	—	32,899	—	3,290
At end of the year	<u>368,320</u>	<u>361,756</u>	<u>36,832</u>	<u>36,176</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

21. SHARE CAPITAL (Cont'd)

Issue of shares

On 2nd January 2002, the Company issued a total of 7,040,000 shares at an issue price of HK\$1.3636 per share pursuant to the exercise of the share options granted to a director in prior year. The market price of the Company's shares at the close of business on the date of issue was HK\$1.3.

During the year ended 31st December 2001, the Company made a bonus issue of 32,899,162 shares of HK\$0.1 each to shareholders, credited as fully paid by way of capitalisation of part of the share premium, on the basis of one bonus share for every ten shares then held.

Repurchase of shares

During the year, the Company repurchased 476,000 ordinary shares of the Company on the Stock Exchange, all of which have been cancelled, as follows:

Month	Number of ordinary shares of HK\$0.1 each	Purchase price		Total consideration paid HK\$
		Highest HK\$	Lowest HK\$	
2002				
January	60,000	1.33	1.33	79,800
February	30,000	1.65	1.65	49,500
March	142,000	1.70	1.63	234,560
May	30,000	1.88	1.85	55,800
June	214,000	1.70	1.68	361,960
	<u>476,000</u>			<u>781,620</u>

These repurchases were effected by the directors pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by the enhancement of the earnings per share of the Company.

None of the Company's subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year.

Share option scheme

The Company's share option scheme ("the Scheme") was adopted on 21st December 1995 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 20th December 2005. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

21. SHARE CAPITAL (Cont'd)

Share option scheme (Cont'd)

The following table discloses details of the Company's share options, which were held by directors and other key management of the Company and movements in such holdings:

Date of grant	Exercisable period	Subscription price per share HK\$	Outstanding at 1st January 2002	Number of shares under options granted			Outstanding at 31st December 2002
				Granted during the year	Exercised during the year	Lapsed during the year	
11th August 1997	11th August 1997 – 10th August 2007	1.3636	7,040,000	–	(7,040,000)	–	–
2nd January 2002	1st January 2004 – 31st December 2013	1.1	–	5,100,000	–	(100,000)	5,000,000
			<u>7,040,000</u>	<u>5,100,000</u>	<u>(7,040,000)</u>	<u>(100,000)</u>	<u>5,000,000</u>

Date of grant	Exercisable period	Subscription price per share HK\$	Outstanding at 1st January 2001	Number of shares under options granted			Outstanding at 31st December 2001
				Granted during the year	Exercised during the year	Lapsed during the year	
11th August 1997	11th August 1997 – 10th August 2007	1.3636	7,040,000	–	–	–	7,040,000
			<u>7,040,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,040,000</u>

Note:

The share options to subscribe for 7,040,000 shares in the Company outstanding at 1st January 2002 comprised options to subscribe for 6,400,000 shares at a subscription price of HK\$1.50 per share granted to a director of the Company on 11th August 1997 which have been subsequently adjusted to 7,040,000 shares at HK\$1.3636 per share as a result of the bonus issue of shares made during the year ended 31st December 2001.

The share options to subscribe for 5,100,000 shares were granted on 2nd January 2002 at no consideration to the directors and other key management of the Company under the Scheme. No charge was recognised in the income statement in respect of the value of the options granted.

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at 1st January	Granted during the year	Exercised during the year	Outstanding at 31st December
2002	<u>7,040,000</u>	<u>1,300,000</u>	<u>(7,040,000)</u>	<u>1,300,000</u>
2001	<u>7,040,000</u>	<u>–</u>	<u>–</u>	<u>7,040,000</u>

Save as disclosed above, no options were granted, exercised, cancelled or lapsed during either of the years presented.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

22. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Asset re- valuation reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
At 1st January 2001	126,411	1,857	8,719	15,133	(5,720)	32,919	244,311	423,630
2000 final dividend paid	—	—	—	—	—	(32,919)	—	(32,919)
Issue of shares	(3,290)	—	—	—	—	—	—	(3,290)
Repurchase of shares	(1,144)	122	—	—	—	—	(485)	(1,507)
Revaluation increase	—	—	3,886	—	—	—	—	3,886
Net profit for the year	—	—	—	—	—	—	91,920	91,920
Amounts set aside for dividend payments (note 11)	—	—	—	—	—	54,944	(54,944)	—
2001 interim dividend paid	—	—	—	—	—	(18,088)	—	(18,088)
Other appropriations	—	—	—	2,520	—	—	(2,520)	—
At 31st December 2001	121,977	1,979	12,605	17,653	(5,720)	36,856	278,282	463,632
2001 final dividend paid	—	—	—	—	—	(36,856)	—	(36,856)
Issue of shares	8,896	—	—	—	—	—	—	8,896
Repurchase of shares	(433)	48	—	—	—	—	(348)	(733)
Revaluation increase	—	—	176	—	—	—	—	176
Net profit for the year	—	—	—	—	—	—	96,192	96,192
Amounts set aside for dividend payments (note 11)	—	—	—	—	—	73,616	(73,616)	—
2002 interim dividend paid	—	—	—	—	—	(18,416)	—	(18,416)
Other appropriations	—	—	—	1,466	—	—	(1,466)	—
At 31st December 2002	<u>130,440</u>	<u>2,027</u>	<u>12,781</u>	<u>19,119</u>	<u>(5,720)</u>	<u>55,200</u>	<u>299,044</u>	<u>512,891</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

22. RESERVES (Cont'd)

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY						
At 1st January 2001	126,411	1,857	100,635	32,919	19,735	281,557
2000 final dividend paid	—	—	—	(32,919)	—	(32,919)
Issue of shares	(3,290)	—	—	—	—	(3,290)
Repurchase of shares	(1,144)	122	—	—	(485)	(1,507)
Net profit for the year	—	—	—	—	58,451	58,451
Amounts set aside for dividend payments	—	—	—	54,944	(54,944)	—
2001 interim dividend paid	—	—	—	(18,088)	—	(18,088)
At 31st December 2001	121,977	1,979	100,635	36,856	22,757	284,204
2001 final dividend paid	—	—	—	(36,856)	—	(36,856)
Issue of shares	8,896	—	—	—	—	8,896
Repurchase of shares	(433)	48	—	—	(348)	(733)
Net profit for the year	—	—	—	—	60,377	60,377
Amounts set aside for dividend payments	—	—	—	73,616	(73,616)	—
2002 interim dividend paid	—	—	—	(18,416)	—	(18,416)
At 31st December 2002	130,440	2,027	100,635	55,200	9,170	297,472

Notes:

The capital reserve of the Group includes enterprise reserve fund in respect of PRC subsidiaries appropriated from retained profits.

The contributed surplus of the Company represents the excess value of the subsidiaries acquired over the nominal value of the Company's shares issued which, under the Companies Act 1981 of Bermuda (as amended), is available for distribution to the shareholders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

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

In the opinion of the directors, as at 31st December 2002, the Company's reserves available for distribution consisted of contributed surplus of HK\$100,635,000 (2001: HK\$100,635,000), dividend reserve of HK\$55,200,000 (2001: HK\$36,856,000) and retained profits of HK\$9,170,000 (2001: HK\$22,757,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

23. DEFERRED TAX LIABILITIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
At 1st January	3,168	2,878
Charge for the year (note 10)	1,655	290
	<hr/>	<hr/>
At 31st December	<u>4,823</u>	<u>3,168</u>

The deferred tax liabilities at the balance sheet date are attributable to excess of tax allowances over depreciation charged on property, plant and equipment.

Deferred tax has not been provided on the increase or decrease arising on the revaluation of properties as it does not constitute a timing difference for tax purposes.

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

24. RETIREMENT BENEFIT PLANS

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group calculated at 5% of the employee's basic salary.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employees.

According to the relevant laws and regulations in the PRC and other countries, the subsidiaries in the PRC and other countries are required to contribute a certain percentage of salaries and wages to the retirement benefits schemes to fund the retirement benefits of their employees.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. No forfeited contributions were utilised in this manner during the year (2001: HK\$43,000). At 31st December 2002, there were no forfeited employer's contributions available to reduce the contributions payable in future years (2001: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

25. OPERATING LEASES

The Group as lessee

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases in respect of land and buildings during the year	<u>2,688</u>	<u>2,463</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	2,293	1,320
In the second to fifth year inclusive	<u>4,217</u>	<u>367</u>
	<u>6,510</u>	<u>1,687</u>

Operating lease payments represent rentals payable by the Group for overseas offices and warehouses. Leases are negotiated for an average term of two to three years and rentals are fixed during such period.

At 31st December 2002 and 2001, the Company had no commitments under non-cancellable operating leases.

The Group as lessor

Property rental income earned during the year was HK\$312,000 (2001: HK\$317,000). The properties held have committed tenants for less than two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	339	366
In the second to fifth year inclusive	<u>198</u>	<u>107</u>
	<u>537</u>	<u>473</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER 2002

26. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	<u>687</u>	<u>511</u>

At 31st December 2002 and 2001, the Company had no significant capital commitments.

27. CONTINGENCIES AND PLEDGE OF ASSETS

At 31st December 2002, the Company has given guarantees to banks amounting to approximately HK\$38,500,000 (2001: HK\$38,500,000) in respect of general banking facilities granted to the Group.

As 31st December 2002, the Group has pledged its land and buildings having a net book value of HK\$23,100,000 (2001: HK\$24,100,000) to secure the general banking facilities granted to the Group.

28. EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Group entered into an agreement to acquire office premises at a consideration of HK\$25,500,000.