

Notes on the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(j)).

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities *(Continued)*

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with Note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in a jointly controlled entity is stated at cost less impairment losses (see Note 1(j)).

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- (i) for acquisitions before 1st January, 2001, positive goodwill is written off to contributed surplus and is reduced by impairment losses (see Note 1(j)); and
- (ii) for acquisitions on or after 1st January, 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(j)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see Note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

Negative goodwill arising on acquisitions of subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- (i) for acquisitions before 1st January, 2001, negative goodwill is credited to capital reserve; and
- (ii) for acquisitions on or after 1st January, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- (i) for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- (ii) for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on the Group reserves is included in the calculation of the profit or loss on disposal.

(f) Other investments in securities

The Group's policy for investments in securities other than investments in subsidiaries, associates and jointly controlled entities is as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in securities *(Continued)*

- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Interest in partnership

Interest in partnership is stated at cost less provision, where appropriate, together with profits less losses attributable to the Group.

(h) Fixed assets

- (i) Fixed assets are carried in the balance sheet on the following bases:
 - (a) investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
 - (b) land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)); and
 - (c) plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)).
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
 - (a) when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
 - (b) when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Fixed assets *(Continued)*

- (iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

(i) Depreciation and amortisation

- (i) No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years or on freehold land.
- (ii) Depreciation is provided on the then carrying amount of investment properties with an unexpired lease term of 20 years or less on a straight-line basis over the remaining term of the lease.
- (iii) Depreciation is provided on the cost of leasehold land and buildings on a straight-line basis over 50 years or the remaining terms of the respective leases, if shorter.
- (iv) Depreciation is provided on the written down value of other fixed assets at the following rates:

Plant and machinery	–	20% to 25% per annum
Furniture and fixtures	–	20% to 25% per annum
Moulds and tools	–	10% to 30% per annum
Vehicles and pleasure craft	–	30% per annum
- (v) Amortisation of patents is charged to the income statement on a straight-line basis over its estimated useful life of five years.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- (i) property, plant and equipment (other than properties carried at revalued amounts);
- (ii) investments in subsidiaries, associates and joint ventures;
- (iii) intangible assets; and
- (iv) positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill)

- (i) Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see Note 1(i)) and impairment losses (see Note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.
- (ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(l) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

- (i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

- (ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(s)(ii).

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement 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 received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the FIFO 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Land/properties held for resale

Land/properties held for resale are stated at the lower of specific identified cost and estimated net realisable value.

(o) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to the Group's defined contribution retirement plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.
- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) 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) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow economic benefits is remote.

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises 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 income statement 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 income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

(a) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(b) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rate for the year, balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(u) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Notes on the Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

Turnover represents the invoiced value of goods sold, less returns, to third parties, rental income and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002 HK\$'000	2001 HK\$'000
Sale of goods	324,943	402,927
Rental income	28,099	27,385
Investment income	7	325
	353,049	430,637

Notes on the Financial Statements *(Continued)*

3. OTHER REVENUE AND NET (EXPENSE)/INCOME

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(a) Other revenue		
Interest income	211	880
Air conditioning, management and maintenance service charges from tenants	4,910	4,310
Subcontracting income	–	1,051
Service income	3,972	2,304
Waiver of amount due to related company <i>(Note 30(a))</i>	4,056	–
Others	1,028	1,195
	<u>14,177</u>	<u>9,740</u>
(b) Other net (expense)/income		
Unrealised gain on revaluation of investment in Squaw Creek Associates <i>(Note 15)</i>	685	3,288
Revaluation surplus on investment properties <i>(Note 11)</i>	–	3,285
Net loss on sale of fixed assets	(85)	(2)
Net exchange loss	(2,883)	(407)
Unrealised loss on listed investments	(96)	(184)
Loss from partnership	(1,409)	(1,337)
	<u>(3,788)</u>	<u>4,643</u>

Notes on the Financial Statements (Continued)

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
(a) Finance costs		
Interest on bank advances repayable within 5 years	12,668	19,899
Interest on advances from directors	3,419	3,568
Interest on advances from shareholders	2,353	3,222
Interest on amounts due to related parties/related companies	117	326
Interest on other loans	746	4,334
Finance charges on obligations under finance leases	656	41
	<u>19,959</u>	<u>31,390</u>
(b) Other items		
Cost of inventories sold	226,429	296,747
Amortisation of intangible assets	2,496	2,496
Depreciation		
– owned assets	20,566	17,320
– assets held under finance leases	543	208
Impairment loss in respect of fixed assets	5,982	–
Auditors' remuneration	2,221	1,676
Operating lease charges		
– rental on land and buildings	11,750	11,690
– other rental	367	281
Employer's contributions to defined contribution plans, net of forfeited contributions of HK\$213,000 (2001: HK\$335,000) (Note 29)	2,756	2,554
Provision for land held for resale	–	2,203
Gain on disposal of listed investments	–	(160)
Dividend income from listed investments	(1)	(1)
Dividend income from unlisted investments	(6)	(8)
Gross rental income from investment properties less direct outgoings of HK\$3,458,000 (2001: HK\$4,124,000)	<u>(24,641)</u>	<u>(23,261)</u>

Cost of inventories includes HK\$81,196,000 (2001: HK\$75,393,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

Notes on the Financial Statements *(Continued)*

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(i) Executive directors		
Fees	80	80
Other emoluments		
Salaries and other benefits	2,503	2,699
Pension scheme contributions	137	115
	<u>2,640</u>	<u>2,814</u>
	<u>2,720</u>	<u>2,894</u>
(ii) Non-executive directors		
Fees	80	80
Other emoluments		
Salaries and other benefits	334	334
Pension scheme contributions	33	33
	<u>367</u>	<u>367</u>
	<u>447</u>	<u>447</u>

The remuneration of the directors is within the following bands:

	2002 Number of directors	2001 Number of directors
HK\$Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	–
	<u>5</u>	<u>6</u>

Notes on the Financial Statements (Continued)

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

During the year ended 31st December, 2002, the five highest paid individuals included one (2001: one) director, details of whose emoluments are set out in Note 5(a). The emoluments of the remaining of the five highest paid individuals, excluding commissions on sales generated by the employees, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	3,838	3,847
Bonus	300	109
Pension scheme contribution	118	88
	<u>4,256</u>	<u>4,044</u>

The emoluments of the four (2001: four) individuals with the highest emoluments are within the following bands:

	2002 Number of employees	2001 Number of employees
HK\$Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	<u>3</u>	<u>2</u>

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 HK\$'000	2001 HK\$'000
Provision for Hong Kong profits tax for the year	1,135	700
Over provision in respect of prior years	—	(36)
	<u>1,135</u>	<u>664</u>
Overseas taxation	7,279	13,276
Deferred taxation (Note 6(c))	2,074	839
	<u>10,488</u>	<u>14,779</u>
Share of associates' taxation	887	—
	<u>11,375</u>	<u>14,779</u>

Notes on the Financial Statements *(Continued)*

6. TAXATION *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

The provision for Hong Kong profits tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31st December, 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

In 2001, the US Internal Revenue Service completed an audit of a US subsidiary of the Group. As a result of the audit, the Group accrued approximately US\$1.3 million (HK\$10 million) of withholding taxes on intercompany interest payments. This amount was included in the overseas tax charge for 2001.

The potential deferred tax credit/(charge) for movements in unrecognised net deferred tax assets (Note 6(c)) for the year amounts to:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Depreciation allowances in excess of related depreciation	788	(2,121)
Future benefit of tax losses	1,211	(6,145)
	<u>1,999</u>	<u>(8,266)</u>

(b) Tax (recoverable)/payable in the consolidated balance sheet represents:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Provision for Hong Kong profits tax on the estimated assessable profits for the year	1,135	700
Provisional profits tax paid	(525)	(272)
	<u>610</u>	<u>428</u>
Overseas tax payable	4,336	8,853
	<u>4,946</u>	<u>9,281</u>
Representing:		
Tax recoverable	(3,191)	(1,477)
Tax payable	8,137	10,758
	<u>4,946</u>	<u>9,281</u>

Notes on the Financial Statements (Continued)

6. TAXATION (Continued)

(c) Deferred taxation

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At 1st January	5,809	6,642
Exchange adjustments	(5)	6
Transferred to income statement (<i>Note 6(a)</i>)	<u>(2,074)</u>	<u>(839)</u>
At 31st December	<u><u>3,730</u></u>	<u><u>5,809</u></u>
Representing:		
Non-current deferred tax recoverable	986	–
Current deferred tax recoverable	2,814	5,819
Deferred tax payable	<u>(70)</u>	<u>(10)</u>
	<u><u>3,730</u></u>	<u><u>5,809</u></u>

The major components of the recognised net deferred tax assets are:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Tax effect on timing differences arising from:		
Depreciation allowances in excess of related depreciation	(70)	(10)
Provisions and allowances	1,880	1,263
Future benefit of tax losses	936	1,873
Others	<u>984</u>	<u>2,683</u>
	<u><u>3,730</u></u>	<u><u>5,809</u></u>

At 31st December, 2002, the major components of the Group's unrecognised net deferred tax assets are:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Depreciation allowances in excess of related depreciation	(17,698)	(18,486)
Future benefit of tax losses	<u>30,004</u>	<u>28,793</u>
	<u><u>12,306</u></u>	<u><u>10,307</u></u>

Notes on the Financial Statements *(Continued)*

6. TAXATION *(Continued)*

(c) **Deferred taxation** *(Continued)*

Surpluses arising on revaluation of investment properties do not constitute a timing difference and tax thereon has therefore not been quantified.

- (d) Provision for taxation has not been made in the Company's balance sheet as the Company incurred an adjusted loss for tax purposes during the year.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of HK\$26,684,000 (2001 Restated: HK\$74,924,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2002 <i>HK\$'000</i>	2001 Restated <i>HK\$'000</i>
Amount of consolidated loss attributable to shareholders dealt with in the Company's financial statements	(26,684)	(74,924)
Final dividend from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	—	13,945
Company's loss for the year <i>(Note 26)</i>	<u>(26,684)</u>	<u>(60,979)</u>

8. LOSS PER SHARE

(a) **Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$39,656,000 (2001 Restated: HK\$24,839,000) and the weighted average of 665,412,000 ordinary shares (2001: 665,254,000 shares) in issue during the year.

(b) **Diluted loss per share**

The diluted loss per share is not presented as the Company does not have potential ordinary shares outstanding during the year.

The diluted loss per share for 2001 was not presented as the Company's potential ordinary shares outstanding during 2001 had an anti-dilutive effect on the basic loss per share.

Notes on the Financial Statements *(Continued)*

9. CHANGES IN ACCOUNTING POLICIES

(a) Employee benefits

Prior to the issuance of Statement of Standard Accounting Practice 34 “employee benefits” by the Hong Kong Society of Accountants, the Group did not provide for the liabilities in respect of its staffs’ vested annual leave and long service payment entitlements. SSAP 34 requires that obligations in respect of these entitlements be accrued as soon as services are rendered.

As a result of the new accounting policy, the Group’s loss for the year has been increased by HK\$423,000 (2001: decreased by HK\$51,000) and the net assets as at the year end have been decreased by HK\$2,389,000 (2001: HK\$1,967,000). The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

(b) Translation of financial statements of foreign enterprises

In prior years, the results of foreign enterprises were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st January, 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the Group translates the results of foreign enterprises at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

10. SEGMENT REPORTING

Segment information is presented in respect of the Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting.

Business segments

The Group comprises the following main business segments:

- | | |
|---------------------------------|--|
| Toys and model trains: | The manufacture and sale of plastic, electronic and stuffed toys and model trains. |
| Property investment: | The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties’ value in the long-term. |
| Investment holding and trading: | The investment in partnership and trading of listed securities. |

Notes on the Financial Statements (Continued)

10. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	Restated		Restated		Restated		Restated		Restated		Restated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	324,920	400,574	28,099	27,385	7	325	23	2,353	-	-	353,049	430,637
Inter-segment revenue	-	-	687	687	-	-	-	-	(687)	(687)	-	-
Other revenue from external customers	823	2,087	4,918	4,319	188	-	3,981	2,454	-	-	9,910	8,860
Total	325,743	402,661	33,704	32,391	195	325	4,004	4,807	(687)	(687)	362,959	439,497
Segment result	(1,021)	4,285	23,626	23,673	(7,418)	(75)	(8,247)	(4,059)	-	-	6,940	23,824
Unallocated operating income and expenses											(1,283)	(459)
Profit from operations											5,657	23,365
Finance costs											(19,959)	(31,390)
Share of loss of associates					(13,979)	(2,035)					(13,979)	(2,035)
Taxation											(11,375)	(14,779)
Loss attributable to shareholders											(39,656)	(24,839)
Depreciation and amortisation for the year	16,671	14,325	2,923	1,608	-	-	4,011	4,091	-	-	23,605	20,024
Impairment loss in respect of fixed assets	2,303	-	-	-	-	-	3,679	-	-	-	5,982	-

Notes on the Financial Statements (Continued)

10. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Toys and model trains		Property investment		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	Restated		Restated		Restated		Restated		Restated		Restated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	342,246	330,896	416,765	448,452	88,877	95,892	358,779	423,412	(351,779)	(405,113)	854,888	893,539
Investments in associates	-	-	-	-	88,817	94,928	-	-	-	-	88,817	94,928
Unallocated assets											6,991	99,474
Total assets											950,696	1,087,941
Segment liabilities	366,042	295,975	100,402	189,445	50,783	57,555	319,336	355,520	(351,779)	(405,113)	484,784	493,382
Unallocated liabilities											8,207	102,302
Total liabilities											492,991	595,684
Capital expenditure incurred during the year	19,831	22,043										

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and China is a major market for the Group's toys and model trains and property investment, and it is the location of most of its toys and model trains manufacturing. Toys and model trains are also sold to North America. The Group also has investment and investment properties in North America. In Europe and other locations, the major business is sale of toys and model trains.

Notes on the Financial Statements *(Continued)*

10. SEGMENT REPORTING *(Continued)*

Geographical segments *(Continued)*

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong and China		North America		Europe		Others	
	2002	2001	2002	2001	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	83,129	192,653	150,894	145,709	110,147	82,696	8,879	9,579
Segment assets	900,933	1,008,390	216,559	209,494	89,175	80,768	–	–
Capital expenditure incurred during the year	16,534	16,752	2,367	4,509	930	782	–	–

Notes on the Financial Statements (Continued)

11. FIXED ASSETS

The Group

	Land and buildings			Equipment	Investment properties			Total
	In	Outside	Sub-total		In	Outside	Sub-total	
	Hong Kong	Hong Kong			Hong Kong	Hong Kong		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost or valuation:								
At 1st January 2002	14,131	23,093	401,439	438,663	346,850	62,512	409,362	848,025
Exchange differences	-	1,293	1,569	2,862	-	-	-	2,862
Additions	-	861	18,970	19,831	-	-	-	19,831
Disposals	-	-	(2,344)	(2,344)	-	-	-	(2,344)
Deficit on revaluation (Note (b) below)	-	-	-	-	(500)	(1,581)	(2,081)	(2,081)
At 31st December, 2002	14,131	25,247	419,634	459,012	346,350	60,931	407,281	866,293
Representing:								
Cost	14,131	25,247	419,634	459,012	-	-	-	459,012
Valuation – 2002	-	-	-	-	346,350	60,931	407,281	407,281
	14,131	25,247	419,634	459,012	346,350	60,931	407,281	866,293
Accumulated depreciation:								
At 1st January 2002	5,590	7,381	309,322	322,293	-	-	-	322,293
Exchange differences	-	142	908	1,050	-	-	-	1,050
Charge for the year	306	596	17,407	18,309	-	2,800	2,800	21,109
Impairment loss (Note (c) below)	-	-	5,982	5,982	-	-	-	5,982
Written back on disposals	-	-	(2,081)	(2,081)	-	-	-	(2,081)
Written back on revaluation (Note (b) below)	-	-	-	-	-	(2,800)	(2,800)	(2,800)
At 31st December, 2002	5,896	8,119	331,538	345,553	-	-	-	345,553
Net book value:								
At 31st December, 2002	<u>8,235</u>	<u>17,128</u>	<u>88,096</u>	<u>113,459</u>	<u>346,350</u>	<u>60,931</u>	<u>407,281</u>	<u>520,740</u>
At 31st December, 2001	<u>8,541</u>	<u>15,712</u>	<u>92,117</u>	<u>116,370</u>	<u>346,850</u>	<u>62,512</u>	<u>409,362</u>	<u>525,732</u>

Notes on the Financial Statements *(Continued)*

11. FIXED ASSETS *(Continued)*

(a) Land and buildings comprise:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At net book value:		
In Hong Kong		
Medium-term leases	<u>8,235</u>	<u>8,541</u>
Freehold outside Hong Kong	<u>17,128</u>	<u>15,712</u>

(b) Investment properties comprise:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At valuation:		
In Hong Kong		
Medium-term leases	<u>346,350</u>	<u>346,850</u>
Outside Hong Kong		
Short-term leases	11,500	14,000
Medium-term leases	34,841	34,841
Freehold	<u>14,590</u>	<u>13,671</u>
	<u>60,931</u>	<u>62,512</u>

The investment properties of the Group at 31st December, 2002 were revalued by Surpass Company Limited and Johnston, Ross & Cheng Limited, external professional valuers, on an open market basis, by either making reference to comparable sales evidence in the market, or otherwise, by capitalising the income derived from the leased properties at an appropriate rate of return.

The net revaluation surplus of HK\$719,000 was credited to the investment properties revaluation reserve (Note 26).

Notes on the Financial Statements (Continued)

11. FIXED ASSETS (Continued)

(c) Impairment loss

In 2002, the Group's directors decided to cease the manufacturing of car batteries, thus the Group assessed the recoverable amount of a number of specialised machines dedicated to that product. The Group has also assessed the recoverable amount of other machines. Based on this assessment, the carrying amount of those machines was written down by HK\$5,982,000 (included in "Other operating expenses"). Further, in connection with the Group's decision to cease the manufacturing of car batteries, during the year a related company agreed to waive an amount of HK\$4,056,000 in connection with the acquisition of a battery patent. This patent was fully amortised at the year end date (Note 16).

(d) Equipment comprises plant and machinery, furniture and fixtures, moulds and tools, vehicles and pleasure craft.

(e) Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in Note 23.

(f) The Group leases production plant and machinery under finance leases expiring in three years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. The net book value of fixed assets included an amount of HK\$2,444,000 (2001: HK\$1,644,000) in respect of assets held under finance leases.

(g) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amounts of the investment properties of the Group held for use in operating leases were HK\$407,281,000 (2001: HK\$409,362,000).

The Group's total future lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Within 1 year	17,624	21,800
After 1 year but within 5 years	10,146	13,292
	27,770	35,092

Notes on the Financial Statements (Continued)

12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	244,819	244,819
Add: Amounts due from subsidiaries	583,780	567,837
Less: Impairment losses	(257,238)	(237,863)
	<u>571,361</u>	<u>574,793</u>

Details of the major subsidiaries at 31st December, 2002 which principally affect the results or assets of the Group are shown on pages 66 and 67.

13. INVESTMENTS IN ASSOCIATES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	22,482	35,435
Amounts due from associates	66,335	59,493
	<u>88,817</u>	<u>94,928</u>

Details of the major associates at 31st December, 2002, which principally affect the results or assets of the Group, are as follows:

Name of associates	Form of business structure	Place of incorporation and operation	Proportion of ownership interest held		Principal activities
			by the Company	by Subsidiary	
Allman Holdings Limited	Incorporated	British Virgin Islands	–	50%	Investment holding
Melville Street Trust Company Limited	Incorporated	Canada	–	27.3%	Property investment
Mango Designs, LLC	Incorporated	USA	–	30%	Marketing and distribution

Notes on the Financial Statements (Continued)

13. INVESTMENTS IN ASSOCIATES (Continued)

In addition to the Group's interest in Squaw Creek Associates ("Squaw Creek") held under investments (see Note 15), Allman Holdings Limited ("Allman") has an interest in this entity. Similar to the Group, Allman's interest in Squaw Creek has been stated at market value in equity accounting for Allman's results. The valuation of the resort owned by Squaw Creek was performed by an independent firm of professional valuers using an income capitalisation approach at 31st December, 2002 and the resultant unrealised loss on revaluation attributable to Allman was HK\$13,444,000 (2001: HK\$2,569,000). Of this loss attributable to Allman, the Group's 50% share, amounting to HK\$6,722,000 (2001: HK\$1,285,000), has been reflected in the share of loss of associates in the Group's consolidated income statement.

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	–	–		
Unlisted shares, at cost			68,151	68,151
Less: Impairment loss			(68,151)	(68,151)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Details of the Group's investment in a jointly controlled entity are as follows:

Name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held		Principal activity
				by the Company	by Subsidiary	
Jinlong Kader Electric Appliance Company Limited	Incorporated	China	Registered capital US\$20,000,000	50%	–	Manufacture of electrical fans

Notes on the Financial Statements *(Continued)*

15. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Interest in partnership	10,998	19,067
	-----	-----
Investment securities		
Unlisted equity securities	100	100
	-----	-----
Other securities – at market value		
Interest in Squaw Creek Associates	77,620	75,687
Equity securities listed in Hong Kong	–	94
	-----	-----
	77,620	75,781
	-----	-----
	88,718	94,948
	=====	=====

Squaw Creek Associates (“Squaw Creek”) owns and operates a resort in USA. The valuation of the resort owned by Squaw Creek was performed by an independent firm of professional valuers using an income capitalisation approach at 31st December, 2002. The related share of the unrealised gain on revaluation attributable to the Group of HK\$685,000 (2001: HK\$3,288,000) has been reflected in the Group’s consolidated income statement for the year. A further interest in Squaw Creek is also held via an associate and details are given in Note 13.

16. INTANGIBLE ASSETS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Patents acquired		
Cost at 1st January and 31st December	12,464	12,464
	-----	-----
Accumulated amortisation		
At 1st January	9,968	7,472
Charge for the year	2,496	2,496
	-----	-----
At 31st December	12,464	9,968
	-----	-----
Net book value	–	2,496
	=====	=====

Notes on the Financial Statements *(Continued)*

17. CURRENT INVESTMENTS

	The Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Trading securities – at market value		
Equity securities listed in Hong Kong	<u>158</u>	<u>160</u>

18. INVENTORIES

	The Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	47,583	58,817
Work in progress	6,917	5,855
Finished goods	<u>104,406</u>	<u>92,067</u>
	<u>158,906</u>	<u>156,739</u>

The amount of inventories (included above) carried at net realisable value is HK\$937,000 (2001: HK\$6,215,000). In addition, finished goods inventories are stated net of a general provision of HK\$2,180,000 (2001: HK\$1,560,000) made in order to state those inventories at the lower of cost and estimated net realisable value.

Finished goods inventories of HK\$52,265,000 (2001: HK\$74,489,000) were pledged to banks to secure banking facilities granted to the Group. See Note 23.

19. LAND/PROPERTIES HELD FOR RESALE

During 2002, certain land held for resale was sold for cash consideration of RMB30,000,000 and residential units in the PRC initially valued at RMB5,000,000. These residential units are included in “properties held for resale” as at 31st December, 2002. There was no gain or loss on the sale.

Notes on the Financial Statements *(Continued)*

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Debtors and prepayments	72,304	73,742	–	14
Amount due from an associate	–	92,178	–	–
Amount due from a related party	300	300	–	–
	<u>72,604</u>	<u>166,220</u>	<u>–</u>	<u>14</u>

The amount due from an associate was interest bearing at prime plus 1% and has been settled during the year.

The amount due from a related party is unsecured, interest free and has no fixed repayment terms.

All trade and other receivables are expected to be recovered within one year.

Included in debtors and prepayments are trade debtors (net of specific allowance for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current	55,741	51,907
1 to 3 months overdue	7,147	5,435
More than 3 months overdue but less than 12 months overdue	922	858
More than 12 months overdue	490	1,053
	<u>64,300</u>	<u>59,253</u>

Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

Notes on the Financial Statements (Continued)

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amount due to an associate	–	91,533	–	–
Amounts due to directors	11,392	8,097	–	–
Amounts due to shareholders	1,648	3,672	–	–
Amounts due to related companies	799	3,789	–	–
Amounts due to related parties	2,130	2,130	–	–
Creditors and accrued charges	46,603	41,872	580	582
Rental deposits	5,421	2,247	–	–
Amounts due to subsidiaries	–	–	330,318	307,851
	<u>67,993</u>	<u>153,340</u>	<u>330,898</u>	<u>308,433</u>

The amount due to an associate was interest bearing at prime and has been settled during the year.

Amounts due to directors, amounts due to shareholders (2001: HK\$2,672,000) represent interest on advances from them included under non-current interest-bearing borrowings (Note 22) and are repayable semi-annually or monthly. The remaining HK\$1,000,000 of amount due to shareholders in 2001, representing advances from shareholders, was unsecured, bore interest at 7% per annum and had no fixed term of repayment.

Amounts due to related companies and related parties are unsecured, interest free and have no fixed term of repayments.

All trade and other payables are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Due within 1 month or on demand	8,718	4,204
Due after 1 month but within 3 months	3,458	6,259
Due after 3 months but within 6 months	735	273
Due after 6 months but within 12 months	64	82
	<u>12,975</u>	<u>10,818</u>

Notes on the Financial Statements *(Continued)*

22. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank loans (Note 23)	57,875	51,182
Advances from directors	68,554	49,554
Advances from shareholders	47,206	45,306
Amounts due to related companies	5,155	4,585
Amount due to a related party	151	151
	<u>178,941</u>	<u>150,778</u>

Amounts due to directors, shareholders, related companies and related party are unsecured, interest bearing at 3% or prime less 0.5% to prime plus 2% and repayable after 31st December, 2003.

23. BANK LOANS AND OVERDRAFTS

At 31st December, 2002, bank loans and overdrafts were repayable as follows:

	The Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 1 year or on demand	<u>219,941</u>	<u>269,845</u>
After 1 year but within 2 years	18,440	16,283
After 2 years but within 5 years	33,858	24,907
After 5 years	<u>5,577</u>	<u>9,992</u>
	<u>57,875</u>	<u>51,182</u>
	<u>277,816</u>	<u>321,027</u>

Notes on the Financial Statements *(Continued)*

23. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December, 2002, bank loans and overdrafts were secured as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Bank overdrafts		
– secured	36,086	52,509
– unsecured	17,557	22,698
	<u>53,643</u>	<u>75,207</u>
Bank loans		
– secured	197,459	204,857
– unsecured	26,714	40,963
	<u>224,173</u>	<u>245,820</u>
	<u>277,816</u>	<u>321,027</u>

At 31st December, 2002, certain investment properties, leasehold land and buildings and other assets of the Group amounting to HK\$502,108,000 (2001: HK\$686,077,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Investment properties	395,781	395,362
Land and buildings	25,363	24,253
Inventories	52,265	74,489
Other assets	28,699	191,973
	<u>502,108</u>	<u>686,077</u>

Notes on the Financial Statements *(Continued)*

24. OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2002, the Group had obligations under finance leases repayable as follows:

	Present value of minimum lease payments <i>HK\$'000</i>	2002 Interest expense relating to future periods <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>	2001 Interest expense relating to future periods <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>
Within 1 year	5,871	502	6,373	496	101	597
After 1 year but within 2 years	6,022	211	6,233	501	57	558
After 2 years but within 5 years	1,171	12	1,183	404	14	418
	<u>7,193</u>	<u>223</u>	<u>7,416</u>	<u>905</u>	<u>71</u>	<u>976</u>
	<u>13,064</u>	<u>725</u>	<u>13,789</u>	<u>1,401</u>	<u>172</u>	<u>1,573</u>

25. SHARE CAPITAL

	2002		2001	
	Number of shares (<i>'000</i>)	<i>HK\$'000</i>	Number of shares (<i>'000</i>)	<i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
At 1st January	665,412	66,541	665,080	66,508
Shares issued under share option scheme	—	—	332	33
At 31st December	<u>665,412</u>	<u>66,541</u>	<u>665,412</u>	<u>66,541</u>

In 2001, 331,478 ordinary shares of HK\$0.10 each were issued as a result of the exercise of share options granted under the Company's Employee Share Option Scheme for an aggregate cash consideration of HK\$56,000. Such share options were granted on 1st January, 2000 with exercise price of HK\$0.17 and the exercisable period was from 1st July, 2000 to 30th June, 2001.

The Company's Employee Share Option Scheme expired on 29th June, 2000.

Notes on the Financial Statements (Continued)

26. RESERVES

	The Group		The Company	
	2002	2001	2002	2001
		Restated		Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties revaluation reserve				
At 1st January	12,545	–	–	–
Surplus arising on revaluation (Note 11(b))	719	12,545	–	–
At 31st December	13,264	12,545	–	–
Exchange reserves				
At 1st January	(4,202)	(3,408)	–	–
Exchange translation differences on translation of financial statements of overseas subsidiaries	4,436	(794)	–	–
At 31st December	234	(4,202)	–	–
Contributed surplus				
At 1st January and 31st December	169,994	169,994	175,594	175,594
Capital reserve				
At 1st January	10,867	10,867	9,347	9,347
Write off of goodwill	(51)	–	–	–
At 31st December	10,816	10,867	9,347	9,347
Share premium				
At 1st January	109,942	109,919	109,942	109,919
Arising on issue of shares	–	23	–	23
At 31st December	109,942	109,942	109,942	109,942
Revenue reserves				
At 1st January				
– as previously reported	128,537	153,427	(134,954)	(74,016)
– prior period adjustment in respect of employee benefits (Note 9(a))	(1,967)	(2,018)	(225)	(184)
– as restated	126,570	151,409	(135,179)	(74,200)
Loss for the year (2001: restated)	(39,656)	(24,839)	(26,684)	(60,979)
At 31st December	86,914	126,570	(161,863)	(135,179)
Total reserves at 31st December	391,164	425,716	133,020	159,704

Notes on the Financial Statements *(Continued)*

26. RESERVES *(Continued)*

Exchange reserves and revenue reserves of the Group are retained as follows:

	The Group			
	Exchange reserves		Revenue reserves	
	2002	2001	2002	2001
				Restated
	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
By the Company and its subsidiaries	(716)	(5,189)	144,829	169,619
By associates	950	987	19,528	34,394
By a jointly controlled entity	–	–	(77,443)	(77,443)
Total at 31st December	<u>234</u>	<u>(4,202)</u>	<u>86,914</u>	<u>126,570</u>

Apart from the above, all other reserves of the Group are retained by the Company and its subsidiaries.

The capital reserve, contributed surplus, exchange reserves and investment properties revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/discount arising on subsidiaries, associates and jointly controlled entities, foreign currency translation and the revaluation of investment properties (*Note 1*).

The Company's reserves available for distribution to shareholders at 31st December, 2002 are as follows:

	The Company	
	2002	2001
		Restated
	HK\$'000	<i>HK\$'000</i>
Contributed surplus	175,594	175,594
Revenue reserves	(161,863)	(135,179)
	<u>13,731</u>	<u>40,415</u>

Notes on the Financial Statements *(Continued)*

27. COMMITMENTS

- (a) Capital commitments outstanding at 31st December, 2002 not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted for	<u>449</u>	<u>–</u>

At 31st December, 2002 and 2001, the Company did not have any capital commitments.

- (b) At 31st December, 2002, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	4,298	10,740	212	185
After 1 year but within 5 years	4,756	6,287	423	100
After 5 years	296	1,186	–	–
	<u>9,350</u>	<u>18,213</u>	<u>635</u>	<u>285</u>

At 31st December, 2002 and 2001, the Company did not have any commitments under operating leases.

The Group leases a number of properties and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

Notes on the Financial Statements *(Continued)*

28. CONTINGENT LIABILITIES

At 31st December, 2002, there were contingent liabilities in respect of the following:

- (a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK\$416,898,000 (2001: HK\$367,640,000).
- (b) The Company has issued letters of support in connection with some other wholly owned subsidiaries with deficiencies in shareholders' funds of HK\$179,509,000 (2001: HK\$166,448,000) as at 31st December, 2002. The company has also issued guarantees to certain wholly owned subsidiaries amounted to HK\$23,838,000 in 2001. There were no similar guarantees in 2002.
- (c) In 2001, bills discounted with banks amounted to HK\$1,094,000 for the Group.

29. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group has a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1st December, 2001, all Hong Kong based employees are also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme has been modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions are varied with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% to 90% after completion of 5 to 9 years' service.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer. At the balance sheet date, the total amount of forfeited contributions which are available to reduce the contributions payable in the future years was HK\$Nil (2001: HK\$25,000).

Employees in the People's Republic of China are covered by a retirement insurance policy.

Employees in United States of America are covered by a profit sharing plan under Section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

Notes on the Financial Statements *(Continued)*

30. MATERIAL RELATED PARTY TRANSACTIONS

- (a) In 1998, the Group agreed to pay HK\$12,464,000 to a company controlled by a director and shareholders of the Company for obtaining the licence to use certain technologies and know-how for the manufacture and sale of car battery products according to an agreement signed in 1996. As at 31st December, 2002, this related company waived the outstanding balance of HK\$4,056,000 due by the Group. Thus, the amount due to this related company at 31st December, 2002 was HK\$Nil (2001: HK\$4,056,000) and income from waiver of amount due to related company of HK\$4,056,000 was taken up by the Group during the year.
- (b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK\$5,944,000 (2001: HK\$6,167,000) during the year. The amount due to the supplier at the year end amounted to HK\$224,000 (2001: HK\$209,000).
- (c) In 2001, certain directors of the Company have entered into a joint and several personal guarantee for not less than HK\$39,000,000 in favour of a bank for loans granted to the Company. No such guarantee existed at 31st December, 2002.
- (d) During the year, the Group had net interests in both an associate and certain investments amounting to HK\$86,607,000 (2001: HK\$93,451,000) and HK\$77,620,000 (2001: HK\$75,687,000) respectively in which a director of the Company has beneficial interests.
- (e) During the year, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in Notes 4, 21 and 22 on the financial statements.
- (f) During the year, the Group has provided funding to a related party. Details of the terms of the advances and the balance outstanding are disclosed in Note 20 on the financial statements.
- (g) The Group has provided/obtained funding to/from associates. Details of the balances outstanding are disclosed in Notes 13, 20 and 21 on the financial statements.

31. COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of requirements of Statement of Standard Accounting Practice 15 (revised 2001) "Cash flow statements". As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

Certain comparative figures have also been adjusted as a result of changes in accounting policy for employee benefits, details of which are set out in Note 9(a).