

Notes to the Financial Statements

1. GENERAL INFORMATION

Compass Pacific Holdings Limited (the “Company”) was 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”). The Company is an investment holding company and its subsidiaries (together with the Company referred to as the “Group”) are mainly engaged in the operation of indoor game centres and the manufacture and sale of automobile axles in the People’s Republic of China (the “PRC”). The directors consider Daiweldo Foundation Ltd, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 26 to 55 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property.

(b) Adoption of new and revised SSAPs

In the current year, the Group has adopted, for the first time, the following revised and new SSAPs.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

Adoption of these revised and new SSAPs has led to a number of changes in the Group’s accounting policies. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. The adoption of these new and revised SSAPs has resulted in the following changes to the Group’s accounting policies and presentation of the financial statements.

SSAP 1 (Revised) – Presentation of financial statements

In adopting SSAP 1 (Revised) the Group is required to present a consolidated statement of changes in equity instead of a consolidated statement of recognised gains and losses. Comparative amounts have been restated to achieve a consistent presentation.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Adoption of new and revised SSAPs *(Continued)*

SSAP 11 (Revised) – Foreign currency translation

SSAP 11 is revised to eliminate the option to translate the income statement of a foreign enterprise at the closing rate when preparing consolidated financial statements and the income statement of foreign enterprise has to be translated at the average rate for the period. This is a change in accounting policy, however, the translation of the income statement of foreign enterprise in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

SSAP 15 (Revised) – Cash flow statements

In adopting SSAP 15 (Revised) the Group is required to prepare a cash flow statement to report cash flows during the period classified by operating, investing and financing activities only. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, demand deposits, short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Comparative amounts have been restated to achieve a consistent presentation.

SSAP 34 – Employee benefits

Employee leave entitlements

In adopting SSAP 34, employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave. In prior years, no provision was made for employee annual and long service leave entitlements. The adoption of this new SSAP has no material effect on the results for the prior years and accordingly no prior year adjustment is required.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Joint ventures

The Group's joint ventures in the PRC are in the form of Sino-foreign co-operative or Sino-foreign equity joint ventures. For Sino-foreign co-operative joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture terms may not be in proportion to their equity ratio but are as defined in the respective joint venture contracts. For Sino-foreign equity joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture years are in proportion to their equity contribution ratios.

The Group's joint ventures are accounted for as subsidiaries as the Company has the power to govern the financial and operating policies of the joint ventures so as to benefit from their activities.

(e) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company's balance sheet subsidiaries are carried at cost less impairment losses.

(f) Goodwill

Positive goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries 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 gross amount less accumulated amortisation and impairment losses.

All goodwill of the Group arose from transactions completed prior to 1st January, 2002 was eliminated directly against reserves and reduced by impairment losses.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use rights and buildings	Over the terms of the leases or 50 years, whichever is shorter
Leasehold improvements, fixture and fittings, and furniture and equipment	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Game equipment	20%
Machinery	10%
Motor vehicles	20% to 25%

(ii) Measurement bases

Property, plant and equipment other than investment properties are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment property is stated at open market value determined annually by independent valuers.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) **Investment properties** *(Continued)*

Increases in the carrying amount of investment property are credited to the revaluation reserve. Decreases are first offset against increases on earlier valuations in the revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the revaluation reserve should be charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus should be credited to the income statement to the extent of the deficit previously charged.

No depreciation is provided for investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

(i) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the first-in-first-out basis and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present locations and conditions. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(j) **Cash and cash equivalents**

Cash comprises cash on hand and demand deposits repayable on demand with banks or financial institutions. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) **Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Games, rides and other amusement facilities

Revenues from games, rides and other amusement facilities are recognised upon the sales of tokens to customers.

(ii) Sale of automobile axles

Revenue from the sale of automobile axles is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(iii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

(m) Research and development expenditures

Research and development expenditures are charged to the income statement in the period incurred except for development costs which satisfy with the following criteria:

- the product or process is clearly defined and the costs are separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

(n) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(ii) Foreign subsidiaries

In consolidating the financial statements of subsidiaries expressed in foreign currencies, the balance sheets and the income statements are translated at the rates of exchange ruling at the balance sheet date and at the average rates for the year respectively. Gains and losses arising on exchange are dealt with as movements in reserve.

(p) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Pension obligations

The Group's pension obligations are of defined contribution in nature. Contributions are charged as expense in the income statement as incurred.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(s) Segments

A segment is a distinguishable component of the Group that is 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.

Notes to the Financial Statements

3. SEGMENT INFORMATION

(a) Business segments

	Operation of indoor game centres		Manufacture and sale of automobile axles		Investment holding and others		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	<u>9,387</u>	<u>14,233</u>	<u>6,058</u>	<u>30</u>	<u>-</u>	<u>-</u>	<u>15,445</u>	<u>14,263</u>
Results								
Segment results	<u>(72)</u>	<u>(1,273)</u>	<u>(1,604)</u>	<u>(2,041)</u>	<u>(57,295)</u>	<u>(32,032)</u>	<u>(58,971)</u>	<u>(35,346)</u>
Finance costs							(66)	(156)
Taxation							-	-
Minority interests							<u>601</u>	<u>392</u>
Loss attributable to shareholders							<u>(58,436)</u>	<u>(35,110)</u>
Assets and liabilities								
Segment assets	<u>8,221</u>	<u>10,717</u>	<u>25,727</u>	<u>26,345</u>	<u>127,051</u>	<u>183,356</u>	<u>160,999</u>	<u>220,418</u>
Segment liabilities	<u>2,973</u>	<u>3,518</u>	<u>1,370</u>	<u>383</u>	<u>6,827</u>	<u>7,635</u>	<u>11,170</u>	<u>11,536</u>
Other information								
Capital expenditure	652	964	2	253	7,047	44	7,701	1,261
Depreciation	1,465	2,608	1,342	1,245	906	516	3,713	4,369
Provision for doubtful debts	-	-	-	2,805	8,067	-	8,067	2,805
Revaluation deficit on investment property	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>900</u>	<u>350</u>	<u>900</u>

Notes to the Financial Statements

3. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's activities are conducted in Hong Kong and the PRC. An analysis by geographical segment is as follows:

	Hong Kong		The PRC		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
Sales to external customers	<u>–</u>	<u>–</u>	<u>15,445</u>	<u>14,263</u>	<u>15,445</u>	<u>14,263</u>
Segment assets	<u>127,051</u>	<u>183,356</u>	<u>33,948</u>	<u>37,062</u>	<u>160,999</u>	<u>220,418</u>
Capital expenditure	<u>7,047</u>	<u>44</u>	<u>654</u>	<u>1,217</u>	<u>7,701</u>	<u>1,261</u>

4. REVENUE

	2002	2001
	HK\$'000	HK\$'000
Turnover:		
– Revenues from games, rides and other amusement facilities	<u>9,387</u>	<u>14,233</u>
– Sales of automobile axles	<u>6,058</u>	<u>30</u>
	<u>15,445</u>	<u>14,263</u>
Other revenue:		
– Bank interest income	<u>2,071</u>	<u>6,613</u>
– Other interest income	<u>184</u>	<u>398</u>
– Write-back of minority interests	<u>–</u>	<u>3,394</u>
– Miscellaneous	<u>269</u>	<u>563</u>
	<u>2,524</u>	<u>10,968</u>
Total revenue	<u>17,969</u>	<u>25,231</u>

Notes to the Financial Statements

5. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank borrowing wholly repayable within five years	<u>66</u>	<u>156</u>

6. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	2002 HK\$'000	2001 HK\$'000
Staff costs (including directors' emoluments)	20,036	25,088
Auditors' remuneration	420	420
Depreciation of property, plant and equipment	3,713	4,369
Provision for doubtful debts	8,067	2,805
Consultancy fees	7,000	*6,000
Revaluation deficit on investment property	350	900
Cost of inventories recognised as expenses	6,763	1,129
Research and development costs	3,310	5,333
Operating lease rentals in respect of rented premises	3,675	4,340
Pension scheme contributions:		
– Hong Kong	149	142
– PRC	<u>375</u>	<u>442</u>

* Classified as provision for doubtful debts in the financial statements for the previous year.

Notes to the Financial Statements

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

- (a) Details of directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are set out below:

	2002 HK\$'000	2001 HK\$'000
Non-executive directors		
Fees	<u>120</u>	<u>–</u>
Executive directors		
Fees	–	–
Salaries, allowances and benefits in kind	4,593	3,638
Pension scheme contributions	24	24
Bonuses paid and payable	<u>–</u>	<u>–</u>
	<u>4,617</u>	<u>3,662</u>
Total	<u><u>4,737</u></u>	<u><u>3,662</u></u>

The emoluments of the directors represent the amount paid to or receivable by the directors in the respective financial year and exclude the benefits derived from or to be derived from the share options granted under the Share Option Scheme as detailed in note 20.

The emoluments of the directors analysed by the number of directors and emoluments ranges are as follows:

	Number of directors	
	2002	2001
Up to HK\$1,000,000	17	9
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	<u>2</u>	<u>–</u>
	<u><u>19</u></u>	<u><u>11</u></u>

No director waived the right to receive emoluments during the year.

Notes to the Financial Statements

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

(b) Details of the five highest paid individuals' emoluments are set out below:

Of the five highest paid individuals of the Group, two (2001: two) are directors of the Company whose emoluments are included above. The emoluments of the remaining three (2001: three) individuals are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,524	2,190
Pension scheme contributions	—	6
	2,524	2,196

Benefits in kind represent the estimated monetary value of accommodation and other benefits provided to the directors and employees of the Company.

The emoluments of the remaining three (2001: three) individuals are within the following band:

	Number	
	2002	2001
Up to HK\$1,000,000	3	3

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

Notes to the Financial Statements

8. TAXATION

No provision for Hong Kong profits tax or other income tax has been made in the financial statements as the companies within the Group had no assessable profits for the year in the respective jurisdictions in which the entities operate.

The amount of the unrecognised deferred tax expense/(credit) of the Group for the year is as follows:

	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation	607	128
(Increase)/Decrease in tax losses	<u>(764)</u>	<u>1,893</u>
	<u><u>(157)</u></u>	<u><u>2,021</u></u>

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$51,811,000 (2001: HK\$125,890,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31st December, 2002 (2001: Nil) and the Company did not pay any interim dividend during the year.

11. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$58,436,000 (2001:HK\$35,110,000), divided by the weighted average number of ordinary shares outstanding during the year of 1,263,634,000 (2001: 1,263,634,000) shares.

No diluted loss per share is presented as the effect of the assumed conversion of the potential ordinary shares outstanding is anti-dilutive.

Notes to the Financial Statements

12. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group are as follows:

	Investment property HK\$'000	Land use rights and buildings HK\$'000	Leasehold improve- ments, fixture and fittings HK\$'000	Furniture and equipment HK\$'000	Game equipment HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At 1st January, 2002	1,900	7,567	16,860	1,780	61,193	5,670	3,198	98,168
Additions	-	-	587	60	57	-	6,997	7,701
Disposals	-	-	-	-	(3,035)	-	(125)	(3,160)
Revaluation deficit	(350)	-	-	-	-	-	-	(350)
Reclassification	-	-	(1,250)	-	1,250	-	-	-
At 31st December, 2002	1,550	7,567	16,197	1,840	59,465	5,670	10,070	102,359
Representing:								
At cost	-	7,567	16,197	1,840	59,465	5,670	10,070	100,809
At valuation	1,550	-	-	-	-	-	-	1,550
Accumulated depreciation:								
At 1st January, 2002	-	1,022	13,768	1,521	58,817	1,216	1,752	78,096
Charge for the year	-	334	551	76	1,154	815	783	3,713
Disposals	-	-	-	-	(3,035)	-	(125)	(3,160)
At 31st December, 2002	-	1,356	14,319	1,597	56,936	2,031	2,410	78,649
Net book value:								
At 31st December, 2002	1,550	6,211	1,878	243	2,529	3,639	7,660	23,710
At 31st December, 2001	1,900	6,545	3,092	259	2,376	4,454	1,446	20,072

The land use rights of the Group are related to land located in the PRC where no individual land ownership rights exist.

The investment property is located in Hong Kong under a long-term lease. Its carrying value as at 31st December, 2002 was appraised by Chesterton Petty Limited, independent professional valuers, on 17th April, 2003. The investment property was appraised on an open market value and vacant possession basis and carried in the balance sheet at open market value. As a result of the appraisal, a decrease in value of the Group's investment property of HK\$350,000 for the year (2001: a decrease of HK\$900,000) is charged to the consolidated income statement.

The investment property was vacant during the year.

Notes to the Financial Statements

13. INTERESTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	102,608	94,802
Less: Provision for impairment losses	(94,802)	(94,802)
	<u>7,806</u>	–
Amounts due from subsidiaries	226,978	206,020
Less: Provision for doubtful debts	(117,625)	(117,625)
	<u>109,353</u>	<u>88,395</u>
	<u><u>117,159</u></u>	<u><u>88,395</u></u>

The amounts with subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. The directors consider the amounts due from subsidiaries are not repayable within one year.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying amount of the interests in subsidiaries as at 31st December, 2002.

Particulars of the Company's subsidiaries as at 31st December, 2002 are as follows:

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			directly %	indirectly %	
American Compass Inc.	United States of America	Ordinary US\$1,000,000	100	–	Inactive
Bluebell Fields Limited	The British Virgin Islands	Ordinary US\$1	100	–	Inactive
Bright Skies Limited	The British Virgin Islands	Ordinary US\$1	100	–	Investment holding
Dawes Investments Limited	The British Virgin Islands	Ordinary US\$1	–	100	Inactive
Hemsby Investments Limited	The British Virgin Islands	Ordinary US\$200	100	–	Investment holding

Notes to the Financial Statements

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			directly %	indirectly %	
Kristal Profits Limited	The British Virgin Islands	Ordinary US\$1	–	100	Investment holding
Nara Profits Limited	The British Virgin Islands	Ordinary US\$1	–	100	Investment holding
Upward Trend Profits Limited	The British Virgin Islands	Ordinary US\$1	–	100	Investment holding
Whimsy International Trading Limited	The British Virgin Islands	Ordinary US\$1	–	100	Inactive
Yaohan Whimsy International Limited	The British Virgin Islands	Ordinary US\$1	–	100	Inactive
Asian Rose Holdings Limited	Hong Kong	Ordinary HK\$2	–	100	Property holding and leasing
Global Gold Trading Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Parkwell (Hong Kong) Ltd. (百宏(香港)有限公司)	Hong Kong	Ordinary HK\$2	100	–	Leasing
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Yaohan Whimsy Co., Limited	Hong Kong	Ordinary HK\$1,000 + Non-voting deferred HK\$1,000	–	100	Investment holding
* 成都歡樂天地有限公司 (Chengdu Happy World Co., Limited)	Chengdu, the PRC	RMB10,000,000	–	97	Ceased operations
# 河南歡樂天地兒童遊樂有限公司 (Henan Whimsy Amusement Company Limited)	Henan, the PRC	US\$2,000,000	–	100	Operation of indoor entertainment centre

Notes to the Financial Statements

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			directly %	indirectly %	
* 上海歡樂天地兒童遊樂 有限公司 (Shanghai Whimsy Amusement Co., Limited)	Shanghai, the PRC	US\$3,000,000	–	90	Operation of indoor entertainment centre
△ 沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.)	Shenyang, the PRC	RMB 30,000,000	–	51	Manufacture of automobile axles
* 蘇州運時家庭電子娛樂 有限公司 (Suzhou Whimsy Family Electronic Recreation Co., Limited)	Suzhou, the PRC	US\$1,050,000	–	95	Operation of indoor entertainment centre
* 無錫歡樂天地遊樂有限公司 (Wuxi Whimsy Amusement Co., Limited)	Wuxi, the PRC	US\$2,720,000	–	95	Operation of indoor entertainment centre
Whimsy Japan Company Limited	Japan	Ordinary JPY 10,000,000	–	100	Inactive
Whimsy USA, Inc.	United States of America	Ordinary US\$10	100	–	Inactive

* These subsidiaries are Sino-foreign co-operative joint ventures.

△ This subsidiary is a Sino-foreign equity joint venture.

This subsidiary is a wholly foreign owned enterprise.

† The deferred shares, which are not held by the Group, practically carry no rights to dividends, to receive notice of, to attend or vote at any general meeting of the respective companies, and to participate in any distribution on winding up.

Notes to the Financial Statements

14. INVENTORIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Plush toys	291	408
Spare parts and other consumables	430	619
	721	1,027
	721	1,027

Approximately HK\$430,000 (2001: HK\$619,000) of the above inventories are stated at net realisable value.

15. TRADE RECEIVABLES

The balances resulted from the sales of automobile axles, which were on an average credit period of 90 days.

The aging analysis of the trade receivables of the Group as at 31st December, 2002 is as follows:

	2002	2001
	HK\$'000	HK\$'000
0 – 90 days	3,317	–
Over 90 days	–	2,805
	–	2,805
		2,805
Less: Provision for doubtful debts	–	(2,805)
	–	–
	3,317	–

16. OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables	9,246	3,045	2,654	2,383
Less: Provision for doubtful debts	(3,000)	–	–	–
	6,246	3,045	2,654	2,383
	6,246	3,045	2,654	2,383

Notes to the Financial Statements

17. CASH AND CASH EQUIVALENTS

As at 31st December, 2002, the cash and cash equivalents of the Group denominated in Chinese Renminbi (“RMB”) amounted to approximately HK\$14,340,000 (2001: HK\$18,230,000). RMB is not freely convertible into other currencies. Subject to the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

18. TRADE PAYABLES

The aging analysis of the trade payables of the Group as at 31st December, 2002 is as follows:

	2002 HK\$’000	2001 HK\$’000
0 – 90 days	78	227
Over 90 days	520	462
	598	689

19. SHARE CAPITAL

	2002		2001	
	Number of shares	Amount HK\$’000	Number of shares	Amount HK\$’000
Ordinary shares of HK\$0.10 each				
Authorised	3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid	1,263,634,000	126,363	1,263,634,000	126,363

20. SHARE OPTIONS

Under the terms of the Share Option Scheme which became effective on 15th March, 1995, the Board of Directors of the Company may offer to executive directors and certain employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company.

Notes to the Financial Statements

20. SHARE OPTIONS (Continued)

A summary of the movements of share options granted under the Share Option Scheme is as follows:

Exercise price per share	Number of share options		
	HK\$0.690	HK\$0.382	Total
Beginning of year	40,000,000	86,300,000	126,300,000
Lapsed during the year	<u>(25,200,000)</u>	<u>(44,530,000)</u>	<u>(69,730,000)</u>
End of year	<u>14,800,000</u>	<u>41,770,000</u>	<u>56,570,000</u>

21. RESERVES

The Group

	Share premium HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 31st December, 2002	<u>260,592</u>	<u>(2,332)</u>	<u>(250,998)</u>	<u>7,262</u>
As at 31st December, 2001	<u>260,592</u>	<u>(2,316)</u>	<u>(192,562)</u>	<u>65,714</u>

The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2001	260,592	94,601	(166,318)	188,875
Loss for the year	<u>–</u>	<u>–</u>	<u>(125,890)</u>	<u>(125,890)</u>
At 31st December, 2001 and 1st January, 2002	260,592	94,601	(292,208)	62,985
Loss for the year	<u>–</u>	<u>–</u>	<u>(51,811)</u>	<u>(51,811)</u>
At 31st December, 2002	<u>260,592</u>	<u>94,601</u>	<u>(344,019)</u>	<u>11,174</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Notes to the Financial Statements

21. RESERVES (Continued)

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31st December, 2002 (2001: Nil).

22. DEFERRED TAXATION

As at 31st December, 2002, the major components of the deferred taxation liabilities/(assets) which have not been recognised in the financial statements are as follows:

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation	849	242	–	–
Tax losses carried forward	(1,565)	(801)	393	359
	<u>(716)</u>	<u>(559)</u>	<u>393</u>	<u>359</u>

No recognition of the deferred tax asset has been made in the financial statements as the related benefits are not expected to crystallise in the foreseeable future.

23. RELATED PARTY TRANSACTIONS

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) Amount due from and amount due to a related company are unsecured, non-interest bearing and repayable on demand. Amount due from a related company of HK\$5,067,000 brought forward from the previous year was fully provided for during the year.

Notes to the Financial Statements

23. RELATED PARTY TRANSACTIONS (Continued)

(b) During the year, the Group entered into the following transactions with related parties:

	2002	2001
	HK\$'000	HK\$'000
Interest income from a related company	–	398
Sales to a related company of a joint venture partner	3,318	–
Purchases from a related company of a joint venture partner	6,006	–
	<u>6,006</u>	<u>–</u>

The above transactions were carried out after negotiations between the Group and the related companies in the ordinary course of business and on the basis of estimated market value as determined by the directors.

24. COMMITMENTS AND CONTINGENCY

(a) Research and development commitments

On 3rd January, 2001 (the “Effective Date”), the Company entered into an agreement with the Trustees of Columbia University in the City of New York (“Columbia”), pursuant to which Columbia is to conduct research in the field of antigen/antibody microarrays for use in immunological diagnostic and functional genomic applications. The Company would have exclusive rights of the results of the said research. In exchange, the Company is to provide financial support for the said research.

The Company has the right to exercise early termination in the first eighteen months after the Effective Date, upon six months written notice to Columbia.

Capital commitments in respect of the above agreement outstanding as at 31st December, 2002 not provided for in the financial statements of the Group and the Company are summarised as follows:

	The Group and the Company	
	2002	2001
	HK\$'000	HK\$'000
Contracted for	10,845	14,155
Authorised but not contracted for	–	–
	<u>10,845</u>	<u>14,155</u>

Notes to the Financial Statements

24. COMMITMENTS AND CONTINGENCY (Continued)

(b) Lease commitments

As at 31st December, 2002, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	30	2,279
After one year but within five years	—	2,595
	<u>30</u>	<u>4,874</u>

The operating lease commitments in respect of certain rented premises are subject to an additional premium based on a fixed percentage of the annual gross turnover and receipts in excess of a specific minimum rental amount that there is no fixed commitment for these leases.

(c) Contingency

The Company provides for potential individual income taxes, related fines and penalties for its employees working in the PRC based on management's best estimate. The management believes that the possibility for additional fines and penalties that may be payable by the Company is remote.

25. RETIREMENT BENEFITS SCHEME

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective provinces to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month.

Notes to the Financial Statements

25. RETIREMENT BENEFITS SCHEME *(Continued)*

The retirement benefit scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31st December, 2002, the Group's contributions were approximately HK\$524,000 (2001: HK\$584,000). There was no (2001: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the balance sheet dates to reduce the Group's contribution payable in future periods.

26. BANKING FACILITIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Bank borrowings	–	1,864
Other banking facilities	<u>500</u>	<u>500</u>
	<u>500</u>	<u>2,364</u>

As at 31st December, 2002, a subsidiary of the Company had aggregate banking facilities of HK\$500,000 (2001: HK\$500,000), all of them remained unutilised. The facilities are secured by certificates of deposit of HK\$1,000,000 (2001: bank deposits of HK\$500,000).

27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 26 to 55 were approved by the board of directors on 29th April, 2003.