

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Unaudited Capital redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002, as previously reported	100,906	81,863	582	21,082	310,112	514,545
Changes in accounting policy ( <i>Note 1</i> )						
– provision for net deferred tax assets	–	–	–	–	29	29
– amortisation of goodwill	–	–	–	–	(807)	(807)
	–	–	–	–	(778)	(778)
At 1 January 2002, as restated	100,906	81,863	582	21,082	309,334	513,767
Issue of shares	20,181	32,290	–	–	–	52,471
Share issuing expenses	–	(1,600)	–	–	–	(1,600)
Loss for the period	–	–	–	–	(42,540)	(42,540)
At 30 June 2002	<u>121,087</u>	<u>112,553</u>	<u>582</u>	<u>21,082</u>	<u>266,794</u>	<u>522,098</u>

## Notes to the condensed interim accounts

### 1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 “Income taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policy and the effect of adopting this new policy is as follows:

### **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profits at 1 January 2002 and 2003 have been increased by HK\$29,000 and reduced by HK\$1,317,000 respectively, which represent the unprovided net deferred tax assets and liabilities respectively. This change has resulted in an increase in deferred tax liabilities at 31 December 2002 by HK\$1,317,000. The loss for the six months ended 30 June 2002 has been increased by HK\$658,000.

The retained profits of certain subsidiaries acquired in prior years have been reduced to recognise the unprovided net deferred tax liabilities. This has given rise to goodwill on consolidation. The opening retained profits at 1 January 2002 and 2003 have been reduced by HK\$807,000 and HK\$1,776,000 respectively, which represent the amortisation of goodwill. This change has resulted in an increase in net deferred tax liabilities and goodwill on consolidation at 31 December 2002 by HK\$9,690,000 and HK\$7,914,000 respectively. The loss for the six months ended 30 June 2002 has been increased by HK\$404,000.

## 2. Segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management.

### Business segments

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2003			
	Toys HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	Group HK\$'000
<b>Revenue</b>				
Turnover	260,473	16,893	–	277,366
Inter-segment revenue (Note iii)	–	506	(506)	–
	<u>260,473</u>	<u>17,399</u>	<u>(506)</u>	<u>277,366</u>
<b>Results</b>				
Segment results	4,523	12,803	–	17,326
Inter-segment transactions	(506)	506	–	–
	<u>4,017</u>	<u>13,309</u>	<u>–</u>	<u>17,326</u>
Unallocated costs				<u>(4,306)</u>
Operating profit				<u>13,020</u>
	Six months ended 30 June 2002 (As restated)			
	Toys HK\$'000	Property investment and management HK\$'000	Eliminations HK\$'000	(As restated) Group HK\$'000
<b>Revenue</b>				
Turnover	108,970	13,319	–	122,289
Inter-segment revenue (Note iii)	–	775	(775)	–
	<u>108,970</u>	<u>14,094</u>	<u>(775)</u>	<u>122,289</u>
<b>Results</b>				
Segment results	(50,125)	5,600	–	(44,525)
Inter-segment transactions	(775)	775	–	–
	<u>(50,900)</u>	<u>6,375</u>	<u>–</u>	<u>(44,525)</u>
Unallocated costs				<u>(2,563)</u>
Operating loss				<u>(47,088)</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of associated companies for the period amounted to HK\$4,069,000 (2002: HK\$5,861,000), which has not been included in the segment results shown above.

### Geographical segments

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
North America	225,711	100,959	917	(45,878)
Europe	24,139	6,061	2,473	(2,207)
Asia Pacific	26,549	15,269	13,847	3,560
Others	967	–	89	–
	<u>277,366</u>	<u>122,289</u>	<u>17,326</u>	<u>(44,525)</u>

### 3. Profit/(Loss) before taxation

Profit/Loss before taxation is stated after charging and crediting the following:

	<b>Six months ended 30 June</b>	
	<i>(As restated)</i>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Charging:</b>		
Cost of inventories sold	<b>100,505</b>	37,974
Staff costs	<b>30,409</b>	37,637
Amortisation of goodwill	<b>485</b>	404
Depreciation of fixed assets	<b>13,747</b>	13,583
	<u><b>145,146</b></u>	<u>99,608</u>
<b>Crediting:</b>		
Interest income from bank deposits	<b>1,075</b>	1,232
Dividend income from listed investments	<b>556</b>	1,029
Gain on disposal of fixed assets	<b>–</b>	70
	<u><b>1,631</b></u>	<u>2,331</u>

### 4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in profits tax from 16% to 17.5% for the fiscal year 2003/2004. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

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

	<b>Six months ended 30 June</b>	
	<i>(As restated)</i>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Current taxation</b>		
Hong Kong profits tax	<b>(371)</b>	(176)
Over-provision in prior years	<b>108</b>	18
	<u><b>(263)</b></u>	<u>(158)</u>
<b>Deferred taxation</b>	<b>(2,418)</b>	(658)
	<u><b>(2,681)</b></u>	<u>(816)</u>

## 5. Dividend

At a meeting held on 7 August 2003 the directors declared an interim dividend of HK cent 1 (2002: nil) per share for the year ending 31 December 2003 to be paid on 10 September 2003 to shareholders on the Company's Register of Members on 3 September 2003. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

## 6. Earnings/(Loss) per share

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

	<b>Six months ended 30 June</b>	
	<i>(As restated)</i>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit/(loss) attributable to shareholders for the purpose of calculating basic and diluted earnings/(loss) per share	<b>9,911</b>	<b>(42,540)</b>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	<b>1,217,863,000</b>	1,070,380,000
Number of potential ordinary shares issuable under share options and warrants	<b>90,136,000</b>	N/A
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	<b>1,307,999,000</b>	N/A

## 7. Trade receivables

As at 30 June 2003, 99.5% (31 December 2002: 99.7%) of the trade receivables net of provisions were current to 30 days, 0.1% (31 December 2002: 0.1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is normally granted to tenants.

## 8. Bank loans

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Secured bank loans payable:		
Within one year	<b>132,711</b>	132,300
In the second year	<b>16,533</b>	16,122
In the third to fifth years	<b>54,540</b>	53,305
After the fifth year	<b>109,780</b>	119,485
	<b>313,564</b>	321,212
Unsecured bank loan payable within one year	<b>71,897</b>	45,308
	<b>385,461</b>	366,520
Current portion included in current liabilities	<b>(204,608)</b>	(177,608)
	<b>180,853</b>	188,912

As at 30 June 2003, the Group had banking facilities amounting to approximately HK\$519 million (31 December 2002: HK\$526 million), of which HK\$396 million (31 December 2002: HK\$378 million) were utilised.

The banking facilities of certain subsidiaries are secured by bank balances of HK\$87 million (31 December 2002: HK\$101 million), other investments of HK\$63 million (31 December 2002: HK\$56 million) and investment properties with aggregate net book value of HK\$591 million (31 December 2002: HK\$591 million) of the Group at 30 June 2003.

## 9. Trade payables

As at 30 June 2003, 98.1% (31 December 2002: 87.3%) of the trade payables were current to 30 days, 1.9% (31 December 2002: 8.5%) were 31 to 60 days and the remaining were over 60 days.

## 10. Share capital

	<b>Authorised Ordinary shares of HK\$0.10 each</b>	
	No. of shares	HK\$'000
<b>At 30 June 2003 and 31 December 2002</b>	<b><u>3,000,000,000</u></b>	<b><u>300,000</u></b>
	<b>Issued and fully paid Ordinary shares of HK\$0.10 each</b>	
	No. of shares	HK\$'000
At 1 January 2002	1,009,055,509	100,906
Issue of shares	201,811,101	20,181
Exercise of warrants	1,200	–
	<hr/>	<hr/>
At 1 January 2003	1,210,867,810	121,087
Exercise of options	5,050,000	505
Exercise of warrants ( <i>Note i</i> )	5,849,800	585
	<hr/>	<hr/>
<b>At 30 June 2003</b>	<b><u>1,221,767,610</u></b>	<b><u>122,177</u></b>

*Note:*

- (i) The warrants are exercisable from 13 May 2002 to 12 May 2004 at an initial subscription price of HK\$0.30 per share (subject to adjustment). As at 30 June 2003, 195,960,101 warrants were outstanding.

## 11. Contingent liabilities

There was no material change in contingent liabilities compared to those disclosed in the most recently published annual report.



## 12. Commitments

### Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at 30 June 2003 were payable as follows:

	<b>Unaudited 30 June 2003 HK\$'000</b>	Audited 31 December 2002 HK\$'000
Within one year	<b>6,762</b>	10,724
In the second to fifth years inclusive	<b>12,952</b>	14,157
After the fifth year	<b>975</b>	–
	<b>20,689</b>	24,881

## 13. Operating lease arrangements

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

### (a) As lessee

At 30 June 2003, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	<b>Unaudited 30 June 2003 HK\$'000</b>	Audited 31 December 2002 HK\$'000
Within one year	<b>10,765</b>	11,438
In the second to fifth years inclusive	<b>19,048</b>	22,919
After the fifth year	<b>2,400</b>	2,856
	<b>32,213</b>	37,213

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$7,157,000 (31 December 2002: HK\$8,383,000).

**(b) As lessor**

At 30 June 2003, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	<b>Unaudited 30 June 2003 HK\$'000</b>	Audited 31 December 2002 HK\$'000
Within one year	<b>22,447</b>	25,146
In the second to fifth years inclusive	<b>14,474</b>	9,710
	<b>36,921</b>	34,856

**14. US dollar equivalents**

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 30 June 2003.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review and prospects**

For the six months ended 30 June 2003, the Group recorded a turnover of HK\$277,366,000 compared to HK\$122,289,000 a year ago. Turnover from toy sales was HK\$260,473,000 compared to HK\$108,970,000 a year ago. Turnover from property investment and management (before inter-segment revenue elimination) was HK\$17,399,000 compared to HK\$14,094,000 a year ago. Gross profit improved by 181% over the same period in 2002. Operating profit for the period was HK\$13,020,000, a significant change from the loss of HK\$47,088,000 reported for the same period in 2002. Net profit attributable to shareholders was HK\$9,911,000 compared to a net loss of HK\$42,540,000 a year ago. Earnings per share was HK cent 0.81 compared to a loss of HK cents 3.97 per share in the same period last year.

Incomes from property rental and management (before inter-segment revenue elimination) grew by 23% in the first six months of 2003 to HK\$17,399,000 compared to the same period last year. The increase reflected incremental rental and management fee incomes from the building acquired in July 2002. Rental yield of investment properties during the period was 5.7%, compared to 5.2% during the same period last year. Despite the favorable results in the first six months, management maintains a cautious outlook on property investments for the whole year given the continued downward pressure on rental rates in the commercial property market in Hong Kong. Nevertheless, property investment and management business will continue to provide the Group with a steady income stream and augment the Group's core business.