

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The financial information relating to the financial year ended 31st December 2002 included in the interim financial report does not constitute the statutory financial statements of the Company and its subsidiaries (the “Group”) for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2002 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11th April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report except for the adoption of SSAP 12 (revised) “Income taxes” issued by the HKSA, which became effective for accounting periods beginning on or after 1st January 2003.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

2. ADOPTION OF REVISED ACCOUNTING STANDARD IN HONG KONG

SSAP 12 (revised) Income taxes

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax.

As a result of the adoption of this accounting policy, the Group’s loss for the period has been increased by HK\$331,000 (2002: decreased by HK\$306,000) and the net assets have been decreased by HK\$23,936,000 (at 31st December 2002: HK\$23,605,000). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

3. SEGMENTAL INFORMATION

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.

Six months ended 30th June	Toys and model trains		Property leasing				Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	<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>	<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	152,797	102,510	12,762	14,289	1	-	-	14	-	-	165,560	116,813		
Inter-segment revenue	-	-	343	343	762	927	-	-	(1,105)	(1,270)	-	-		
Other revenue from external customers	1,563	930	2,559	3,412	320	1	524	1,372	-	-	4,966	5,715		
Total	154,360	103,440	15,664	18,044	1,083	928	524	1,386	(1,105)	(1,270)	170,526	122,528		
Segment result	(6,848)	(19,854)	11,342	12,927	(2,531)	(1,555)	(1,449)	(2,118)	-	-	514	(10,600)		
Inter-segment transactions	186	343	418	584	(762)	(927)	158	-	-	-	-	-		
Contribution from operations	(6,662)	(19,511)	11,760	13,511	(3,293)	(2,482)	(1,291)	(2,118)	-	-	514	(10,600)		
Unallocated operating income and expenses											26	(323)		
Profit/(loss) from operations											540	(10,923)		

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three 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.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Six months ended 30th June	Hong Kong and China		North America		Europe		Others	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	29,291	34,589	71,905	40,353	52,673	37,974	11,691	3,897

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Cost of inventories	97,410	65,576
Amortisation of intangible assets	–	1,248
Interest on borrowings	8,664	10,049
Depreciation	9,979	9,735
Net profit on sale of fixed assets	–	(102)
Net realised and unrealised losses on trading and other securities carried at fair value	57	37
Decrease in liability for long service payment	(239)	(64)
(Decrease)/increase in liability for accrued leave pay	(24)	102
	<u>1,855</u>	<u>3,002</u>

5. TAXATION

	Six months ended 30th June	
	2003	2002
	HK\$'000	Restated HK\$'000
Hong Kong taxation	536	678
Overseas taxation	591	2,163
Deferred taxation	728	161
	<u>1,855</u>	<u>3,002</u>

Hong Kong profits tax is provided at 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Overseas taxation is similarly calculated at the rate prevailing in the respective jurisdictions.

6. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders after taxation and minority interests of HK\$11,037,000 (2002 Restated: HK\$24,098,000) and 665,412,000 shares (2002: 665,412,000 shares) in issue, which represents the weighted average number of shares in issue during the period.

(b) **Diluted loss per share**

There were no dilutive potential ordinary shares in existence during the six months ended 30th June 2003 and 30th June 2002.

7. **INVENTORIES**

The amount of inventories carried at net realisable value is HK\$1,344,000 (at 31st December 2002: HK\$937,000). In addition, finished goods inventories are stated net of a general provision of HK\$1,500,000 (at 31st December 2002: HK\$2,180,000) made in order to state those inventories at the lower of cost and estimated net realisable value.

8. **TRADE AND OTHER RECEIVABLES**

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

	At 30th June 2003 HK\$'000	At 31st December 2002 HK\$'000
Current	42,090	55,741
1 to 3 months overdue	14,226	7,147
More than 3 months overdue but less than 12 months overdue	1,622	922
More than 12 months overdue	312	490
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Total trade debtors	58,250	64,300
Amount due from a related party	300	300
Other debtors and prepayments	10,286	8,004
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	68,836	72,604
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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.

9. **TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30th June 2003 HK\$'000	At 31st December 2002 HK\$'000
Due within 1 month or on demand	30,352	8,718
Due after 1 month but within 3 months	1,067	3,458
Due after 3 months but within 6 months	111	735
Due after 6 months but within 12 months	799	64
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Total trade creditors	32,329	12,975
Other payables	64,550	55,018
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	96,879	67,993
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10. SHARE CAPITAL

	At 30th June 2003 HK\$'000	At 31st December 2002 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
665,412,000 ordinary shares of HK\$0.10 each	<u>66,541</u>	<u>66,541</u>

11. RESERVES

	Investment properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Share premium HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 1st January 2002							
As previously reported	12,545	(4,202)	169,994	10,867	109,942	126,570	425,716
Prior period adjustment:							
– Deferred taxation (<i>note 2</i>)	(3,503)	–	–	–	–	(20,280)	(23,783)
As restated	9,042	(4,202)	169,994	10,867	109,942	106,290	401,933
Surplus arising on revaluation (restated)	1,005	–	–	–	–	–	1,005
Net exchange translation differences	–	4,436	–	–	–	–	4,436
Write off of goodwill	–	–	–	(51)	–	–	(51)
Loss for the year (restated)	–	–	–	–	–	(39,764)	(39,764)
At 31st December 2002	<u>10,047</u>	<u>234</u>	<u>169,994</u>	<u>10,816</u>	<u>109,942</u>	<u>66,526</u>	<u>367,559</u>
At 1st January 2003							
As previously reported	13,264	234	169,994	10,816	109,942	86,914	391,164
Prior period adjustment:							
– Deferred taxation (<i>note 2</i>)	(3,217)	–	–	–	–	(20,388)	(23,605)
As restated	10,047	234	169,994	10,816	109,942	66,526	367,559
Net exchange translation differences	–	2,740	–	–	–	–	2,740
Loss for the period	–	–	–	–	–	(11,037)	(11,037)
At 30th June 2003	<u>10,047</u>	<u>2,974</u>	<u>169,994</u>	<u>10,816</u>	<u>109,942</u>	<u>55,489</u>	<u>359,262</u>

12. MATERIAL RELATED PARTY TRANSACTIONS

- (a) 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\$2,531,000 (2002: HK\$2,797,000) during the period. The amount due to the supplier at the period end amounted to HK\$1,852,000 (at 31st December 2002: HK\$224,000).
- (b) During the period, the Group had net interests in both an associate and certain investments amounting to HK\$93,029,000 (at 31st December 2002: HK\$86,607,000) and HK\$75,687,000 (at 31st December 2002: HK\$77,620,000) respectively in which a director of the Company has beneficial interests.
- (c) During the period, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. The outstanding balances are as follows:

	Outstanding	
	Unaudited At 30th June 2003 <i>HK\$'000</i>	Audited At 31st December 2002 <i>HK\$'000</i>
Directors	89,241	79,946
Shareholders	49,333	48,854
Related companies	6,166	6,105
Related parties	2,130	2,130

The above balances are unsecured, interest bearing at 3% or prime less 0.5% to prime plus 2%. HK\$1,200,000 has no fixed term of repayment while the remaining balances are repayable after 30th June 2004.

13. COMPARATIVE FIGURES

Certain comparative figures have been restated based on the adoption of revised accounting standard as set out in note 2 in the interim financial report.

Staff related expenses of HK\$12,151,000 which was included in "Other operating expenses" in the 2002 interim consolidated income statement have been reclassified under "Staff costs" to conform with the current period's presentation.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30th June 2003 (2002: nil).