

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Principal accounting policies

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed accounts should be read in conjunction with the audited accounts for the year ended 31st March 2003.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the Group has changed its accounting policy following its adoption of SSAP 12 (revised) “Income Taxes”. SSAP 12 (revised) is effective for accounting periods commencing on or after 1st April 2003.

The changes to the Group’s accounting policies and the effect of adopting this new standard is set out below:

SSAP 12 (revised): Income taxes

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 recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies, 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 revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that comparatives presented have been restated to confirm to the changed policy.

Opening retained earnings at 1st April 2002 and 1st April 2003 have been increased by approximately HK\$999,000 and HK\$2,160,000 respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax liabilities at 31st March 2002 and 31st March 2003 by HK\$3,205,000 and HK\$2,032,000 respectively while the revaluation reserve as at 1st April 2002 and 1st April 2003 have been reduced by approximately HK\$4,204,000 and HK\$4,192,000 respectively. The profit for the six months ended 30th September 2002 have been increased by approximately HK\$2,359,000 while there was no significant effect for the six months ended 30th September 2003.

2. Turnover, revenue and segmental information

The Group is principally engaged in the development, engineering, manufacture and sale of toys and moulds.

Revenues recognised during the periods are as follows:

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale of goods	360,264	344,115
Mould income	14,855	13,393
	<u>375,119</u>	<u>357,508</u>
Other revenues		
Interest income	69	255
Other	993	318
	<u>1,062</u>	<u>573</u>
Total revenues	<u>376,181</u>	<u>358,081</u>

Primary reporting format – business segments

The Group's turnover and results are substantially derived from the manufacturing of toys. Accordingly, no analysis by business segment is presented.

Secondary reporting format – geographical segments

	Turnover Unaudited	
	Six months ended 30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
United States	162,504	139,686
Europe	97,416	88,593
Japan	36,717	68,802
Mainland China	24,911	15,057
Other	53,571	45,370
	<u>375,119</u>	<u>357,508</u>

No analysis of contribution to operating profit by geographical segment has been prepared as no contribution to operating profit from any of the above segments is substantially out of line with the normal ratio of profit to turnover.

The turnover derived from Europe represents sales of toys to Japanese customers with goods shipped directly to Europe under the instruction of the Japanese customers. The respective trade receivables are included in the Japan segment.

3. Operating profit

Operating profit is stated after charging the following:

	Unaudited	
	Six months ended 30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charging:		
Depreciation of owned fixed assets	22,538	23,143
Depreciation of fixed assets under finance leases	–	200
Amortisation of goodwill (included in administrative expenses)	817	785
Provision for bad and doubtful debt	1,382	–
	<u>1,382</u>	<u>–</u>

4. Finance costs

	Unaudited Six months ended 30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on loans from banks and financial institutions and overdrafts	5,976	6,560
Interest elements of finance leases	–	447
Arrangement fees on bank loans	<u>1,248</u>	<u>667</u>
	<u>7,224</u>	<u>7,674</u>

5. Taxation

	Unaudited Six months ended 30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax expenses		
Hong Kong profits tax	523	1,870
Mainland China income tax	<u>3,658</u>	<u>982</u>
	<u>4,181</u>	<u>2,852</u>
Deferred taxation	<u>(163)</u>	<u>(2,359)</u>
	<u>4,018</u>	<u>493</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Taxation on profits of subsidiaries in Mainland China has been calculated on the estimated assessable profit for the period at the rates of taxation as applicable to the local subsidiaries. No provision for taxation of the subsidiaries in Indonesia and the United States has been made as they have tax losses as at 30th September 2003 and 30th September 2002.

6. Dividends

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	HK\$'000	HK\$'000
Ordinary shares		
Interim dividend, declared after period end, of HK0.75 cents (2002: HK0.25 cents) per ordinary share (<i>Note a</i>)	3,628	1,036
Preference shares (<i>Note b</i>)		
Nil (2002: HK\$17,261 per preference share)	—	690
	3,628	1,726

Note: (a) At the board meeting held on 17th December 2003, the directors declared an interim dividend of HK0.75 cents per ordinary share.

(b) The Company's preference shareholders, Goldmost Industries Limited, has converted in full of the preference shares of the Company into ordinary shares at the initial conversion price of HK\$0.45 per share on 5th November 2003. Details of the conversion were disclosed in the press on 6th November 2003.

7. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$25,409,000 (2002: HK\$23,943,000) less dividends related to preference shares of HK\$nil (2002: HK\$690,000). The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$25,409,000 (2002: HK\$23,943,000).

The basic earnings per share is based on the weighted average number of 414,400,000 (2002: 414,333,333) ordinary shares in issue during the period. The diluted earnings per share is based on 414,400,000 (2002: 414,333,333) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus (a) the weighted average number of 69,333,333 (2002: 69,333,333) ordinary shares deemed to be issued at a consideration of HK\$0.45 per ordinary share assuming all outstanding preference shares had been converted, and (b) the weighted average number of nil (2002: 551,000) ordinary shares deemed to be issued at no consideration if all outstanding share options have been exercised. In this period, the outstanding share options were not included in the calculation of the diluted earnings per share as the exercise of these share options at the time would have an anti-dilutive effects.

8. Goodwill

	<i>HK\$'000</i>
At 1st April 2003	22,506
Amortisation charges for the period	<u>(817)</u>
At 30th September 2003	<u>21,689</u>

9. Fixed assets

	<i>HK\$'000</i>
At 1st April 2003	257,845
Additions	2,822
Depreciation	(22,538)
Exchange adjustment	<u>262</u>
At 30th September 2003	<u>238,391</u>

10. Trade receivables

The Group's sales are on letter of credit or open account terms, of which the settlement is generally expected to be within 30 to 90 days of the date of sale. The ageing analysis of trade receivables is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30th September 2003	<u>30,664</u>	<u>16,978</u>	<u>70,442</u>	<u>115,038</u>	<u>233,122</u>
As at 31st March 2003	<u>39,253</u>	<u>19,431</u>	<u>20,406</u>	<u>45,158</u>	<u>124,248</u>

11. Trade payables and deposits received

	Unaudited 30th September 2003 <i>HK\$'000</i>	Audited 31st March 2003 <i>HK\$'000</i>
Trade payables (<i>Note</i>)	43,197	47,857
Deposits received	<u>6,176</u>	<u>1,980</u>
	<u>49,373</u>	<u>49,837</u>

Note: The ageing analysis of trade payables was as follows:

	0-30 days <i>HK\$'000</i>	31-60 days <i>HK\$'000</i>	61-90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30th September 2003	<u>24,142</u>	<u>9,853</u>	<u>5,866</u>	<u>3,336</u>	<u>43,197</u>
As at 31st March 2003	<u>16,993</u>	<u>12,235</u>	<u>10,817</u>	<u>7,812</u>	<u>47,857</u>

12. Share capital

	Authorised			
	Convertible redeemable preference shares of US\$100,000 each		Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>US\$'000</i>	<i>No. of shares</i> <i>(thousands)</i>	<i>HK\$'000</i>
At the beginning and the end of the period/year	<u>40</u>	<u>4,000</u>	<u>1,000,000</u>	<u>100,000</u>
	Issued and fully paid			
	Convertible redeemable preference shares of US\$100,000 each		Ordinary shares of HK\$0.10 each	
	<i>No. of shares</i>	<i>HK\$'000</i> <i>(equivalent)</i>	<i>No. of shares</i> <i>(thousands)</i>	<i>HK\$'000</i>
At 1st April 2002	40	30,960	414,200	41,420
Exercise of share options <i>(Note 1)</i>	<u>—</u>	<u>—</u>	<u>200</u>	<u>20</u>
At 30th September 2002/ 31st March 2003	<u>40</u>	<u>30,960</u>	<u>414,400</u>	<u>41,440</u>
At 1st April 2003/ 30th September 2003	<u>40</u>	<u>30,960</u>	<u>414,400</u>	<u>41,440</u>

Note:

- During the period ended 30th September 2002, 200,000 shares options were exercised by certain employees at HK\$0.675 per ordinary share. The closing price of the share immediately before the date on which the options were exercised was HK\$0.84.

13. Long-term liabilities

	Unaudited 30th September 2003 HK\$'000	Restated 31st March 2003 HK\$'000
Loans from banks and financial institutions-secured		
Wholly repayable within five years (<i>Note (a)</i>)	229,276	254,102
Obligation under finance leases wholly repayable within five years (<i>Note (b)</i>)	–	236
Deferred taxation	3,942	4,128
Provision for long service payments	662	641
	<u>233,880</u>	<u>259,107</u>
Current portion of long-term liabilities	<u>(157,500)</u>	<u>(114,881)</u>
	<u><u>76,380</u></u>	<u><u>144,226</u></u>

(a) The loans from banks and financial institutions were repayable as follows:

	Unaudited 30th September 2003 HK\$'000	Audited 31st March 2003 HK\$'000
Within one year	157,500	114,826
In the second year	42,500	110,000
In the third to fifth years	29,276	29,276
	<u>229,276</u>	<u>254,102</u>

(b) The obligations under finance leases were repayable as follows:

	Unaudited 30th September 2003 <i>HK\$'000</i>	Audited 31st March 2003 <i>HK\$'000</i>
Within one year	–	67
In the second year	–	67
In the third to fifth years	–	131
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	–	265
Future finance charges on finance leases	–	(29)
	<hr/>	<hr/>
Present value of finance lease liabilities	–	236
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The present value of finance lease liabilities is as follows:

	Unaudited 30th September 2003 <i>HK\$'000</i>	Audited 31st March 2003 <i>HK\$'000</i>
Within one year	–	55
In the second year	–	58
In the third to fifth year	–	123
	<hr/>	<hr/>
	–	236
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14. Contingent liabilities

As at 30th September 2003, the Group had contingent liabilities of HK\$11,563,000 (2002: HK\$7,262,000) and HK\$419,000 (2002: HK\$4,470,000) in respect of letters of credit issued and bills of exchange discounted with recourse respectively.

15. Commitments

At 30th September 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30th September 2003 <i>HK\$'000</i>	Audited 31st March 2003 <i>HK\$'000</i>
Not later than one year	6,666	6,066
Later than one year and not later than five years	14,998	14,414
Over 5 years	13,407	14,304
	35,071	34,784

16. Banking and other facilities and pledge of assets

As at 30th September 2003, the Group's banking and other facilities and pledge of assets are as follows:

- (1) There was outstanding bank loan of US\$3,753,000 (HK\$29,276,000) which was borrowed to finance the single lump sum payment for premiums of the life insurance policies as mentioned in Note 15 to the accounts in the 2002/2003 annual report. The bank loan is secured by the three life insurance policies with a combined death benefit of US\$25 million (HK\$195 million) and a corporate guarantee executed by the Company.
- (2) Other general banking facilities of HK\$391,515,000 utilized for working capital purposes are supported by a corporate guarantee executed by the Company.

17. Subsequent events

The Company's preference shareholders, Goldmost Industries Limited, has converted in full of the preference shares of the Company into ordinary shares at the initial conversion price of HK\$0.45 per share on 5th November 2003. Details of the conversion were disclosed in the press on 6th November 2003.