

## Notes to the Financial Statements

For the year ended 31st December, 2003

### 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 Sun East LLC, a company incorporated in the United States of America (the "USA"), to be the ultimate holding company.

### 2. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements on pages 25 to 57 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 "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property.

#### (b) Adoption of revised SSAP

In the current year, the Group has adopted SSAP 12 (Revised) Income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the results for the current and prior years. Accordingly, no prior year adjustment is required.

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (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.

#### (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 ratio.

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

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 goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. 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.

For the year ended 31st December, 2003

## 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.

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (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.

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.

## Notes to the Financial Statements

For the year ended 31st December, 2003

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (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.

#### (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 is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

*For the year ended 31st December, 2003*

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (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 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) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

For the year ended 31st December, 2003

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) **Income tax** (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 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 entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payments 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.



For the year ended 31st December, 2003

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) Employee benefits (Continued)

#### (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.

### (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.

#### (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 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.

#### (ii) 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.

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For the year ended 31st December, 2003

### 3. SEGMENT INFORMATION

#### (a) Business segments

	Operation of indoor game centres		Manufacture and sale of automobile axles		Investment holding and others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>								
Sales to external customers	<u>4,680</u>	<u>9,387</u>	<u>12,585</u>	<u>6,058</u>	<u>-</u>	<u>-</u>	<u>17,265</u>	<u>15,445</u>
<b>Results</b>								
Segment results	<u>(6,088)</u>	<u>(72)</u>	<u>(1,370)</u>	<u>(1,604)</u>	<u>(44,645)</u>	<u>(57,295)</u>	<u>(52,103)</u>	<u>(58,971)</u>
Finance costs							-	(66)
Taxation							-	-
Minority interests							<u>703</u>	<u>601</u>
Loss attributable to shareholders							<u>(51,400)</u>	<u>(58,436)</u>
<b>Assets and liabilities</b>								
Segment assets	<u>2,378</u>	<u>8,221</u>	<u>23,841</u>	<u>25,727</u>	<u>151,284</u>	<u>127,051</u>	<u>177,503</u>	<u>160,999</u>
Segment liabilities	<u>3,816</u>	<u>2,973</u>	<u>853</u>	<u>1,370</u>	<u>9,961</u>	<u>6,827</u>	<u>14,630</u>	<u>11,170</u>
<b>Other information</b>								
Capital expenditure	<u>518</u>	<u>652</u>	<u>3,669</u>	<u>2</u>	<u>3,237</u>	<u>7,047</u>	<u>7,424</u>	<u>7,701</u>
Depreciation	<u>1,450</u>	<u>1,465</u>	<u>1,147</u>	<u>1,342</u>	<u>2,179</u>	<u>906</u>	<u>4,776</u>	<u>3,713</u>
Impairment	<u>1,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,236</u>	<u>-</u>
Provision for doubtful debts	<u>662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>8,067</u>	<u>3,662</u>	<u>8,067</u>
Revaluation (surplus)/deficit on investment property	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70)</u>	<u>350</u>	<u>(70)</u>	<u>350</u>

## Notes to the Financial Statements

For the year ended 31st December, 2003

### 3. SEGMENT INFORMATION (Continued)

#### (b) Geographical segments

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

	Hong Kong		The PRC		The USA		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>								
Sales to external customers	-	-	17,265	15,445	-	-	17,265	15,445
<b>Segment assets</b>	<b>30,239</b>	127,051	<b>26,219</b>	33,948	<b>121,049</b>	-	<b>177,503</b>	160,999
<b>Capital expenditure</b>	<b>14</b>	7,047	<b>4,187</b>	654	<b>3,223</b>	-	<b>7,424</b>	7,701

### 4. REVENUE

	2003 HK\$'000	2002 HK\$'000
Turnover:		
- Revenues from games, rides and other amusement facilities	4,680	9,387
- Sales of automobile axles	12,585	6,058
	<b>17,265</b>	15,445
Other revenue:		
- Bank interest income	818	2,071
- Other interest income	354	184
- Surplus on revaluation of investment property	70	-
- Miscellaneous	19	269
	<b>1,261</b>	2,524
Total revenue	<b>18,526</b>	17,969

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COMPASS PACIFIC HOLDINGS LIMITED

### 5. FINANCE COSTS

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Interest on bank borrowing wholly repayable within five years	<u>–</u>	<u>66</u>

### 6. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Staff costs (including directors' emoluments)	<b>25,870</b>	20,036
Auditors' remuneration	<b>420</b>	420
Depreciation of property, plant and equipment	<b>4,776</b>	3,713
Impairment loss on property, plant and equipment	<b>1,236</b>	–
Provision for doubtful debts	<b>3,662</b>	8,067
Consultancy fees	–	7,000
Revaluation deficit on investment property	–	350
Cost of inventories recognised as expenses	<b>12,878</b>	6,763
Research and development costs	<b>3,479</b>	3,310
Operating lease rentals in respect of rented premises	<b>3,256</b>	3,675
Pension scheme contributions:		
– Hong Kong	<b>95</b>	149
– PRC	<b>423</b>	375

For the year ended 31st December, 2003

## 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:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-executive directors		
Fees	<u>156</u>	<u>120</u>
Executive directors		
Fees	<b>567</b>	–
Salaries, allowances and benefits in kind	<b>10,417</b>	4,593
Pension scheme contributions	<u>24</u>	<u>24</u>
	<u><b>11,008</b></u>	<u>4,617</u>
Total	<u><b>11,164</b></u>	<u>4,737</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 2003 Scheme as detailed in note 21.

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

	<b>Number of directors</b>	
	<b>2003</b>	2002
Up to HK\$1,000,000	<b>12</b>	17
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
HK\$4,500,001 to HK\$5,000,000	<u><b>1</b></u>	<u>–</u>
	<u><b>15</b></u>	<u>19</u>

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

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## 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, four (2002: two) are directors of the Company whose emoluments are included above. The emoluments of the remaining one (2002: three) individual are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>781</b>	2,524
Pension scheme contributions	<u>—</u>	<u>—</u>
	<b><u>781</u></b>	<b><u>2,524</u></b>

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 one (2002: three) individual are within the following band:

	<b>2003</b>	<b>Number</b> 2002
Up to HK\$1,000,000	<u><b>1</b></u>	<u><b>3</b></u>

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.

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For the year ended 31st December, 2003

### 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.

Reconciliation between tax expense and accounting loss at applicable tax rates:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss before taxation	<u>(52,103)</u>	<u>(59,037)</u>
Tax effect on loss before taxation, calculated at the rates applicable to losses in the tax jurisdiction concerned	<b>(12,727)</b>	(10,239)
Tax effect of non-deductible expenses	<b>4,924</b>	9,741
Tax effect of non-taxable revenues	<b>(33)</b>	(1,263)
Tax losses not recognised as deferred tax asset	<b>7,769</b>	2,403
Other temporary differences not recognised	<u>67</u>	<u>(642)</u>
Actual tax expense	<u>-</u>	<u>-</u>

The Group has not recognised deferred tax assets in respect of unused tax losses because of the unpredictability of future profit streams. Deferred tax on other temporary differences has not been recognised because the amount involved was not material.

### 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$49,023,000 (2002: HK\$51,811,000) 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, 2003 (2002: Nil) and the Company did not pay any interim dividend during the year.

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## 11. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$51,400,000 (2002: HK\$58,436,000), divided by the weighted average number of ordinary shares outstanding during the year of 1,310,371,148 (2002: 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.

## 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 improvements and fixture and fittings HK\$'000	Furniture and equipment HK\$'000	Game equipment HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>								
At 1st January, 2003	1,550	7,567	16,197	1,840	59,465	5,670	10,070	102,359
Additions	-	-	666	1,781	185	3,253	1,539	7,424
Disposals	-	-	(433)	-	(1,313)	-	(565)	(2,311)
Revaluation surplus	70	-	-	-	-	-	-	70
<b>At 31st December, 2003</b>	<b>1,620</b>	<b>7,567</b>	<b>16,430</b>	<b>3,621</b>	<b>58,337</b>	<b>8,923</b>	<b>11,044</b>	<b>107,542</b>
Representing:								
At cost	-	7,567	16,430	3,621	58,337	8,923	11,044	105,922
At valuation	1,620	-	-	-	-	-	-	1,620
<b>Accumulated depreciation and impairment losses:</b>								
At 1st January, 2003	-	1,356	14,319	1,597	56,936	2,031	2,410	78,649
Charge for the year	-	378	628	203	1,041	617	1,909	4,776
Disposals	-	-	(178)	-	(1,265)	-	(399)	(1,842)
Impairment	-	-	246	10	980	-	-	1,236
<b>At 31st December, 2003</b>	<b>-</b>	<b>1,734</b>	<b>15,015</b>	<b>1,810</b>	<b>57,692</b>	<b>2,648</b>	<b>3,920</b>	<b>82,819</b>
<b>Net book value:</b>								
<b>At 31st December, 2003</b>	<b>1,620</b>	<b>5,833</b>	<b>1,415</b>	<b>1,811</b>	<b>645</b>	<b>6,275</b>	<b>7,124</b>	<b>24,723</b>
At 31st December, 2002	1,550	6,211	1,878	243	2,529	3,639	7,660	23,710

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



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## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The investment property is located in Hong Kong under a long-term lease. Its carrying value as at 31st December, 2003 was appraised by Chesterton Petty Limited, independent professional valuers, on 21st April, 2004. 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, an increase in value of the Group's investment property of HK\$70,000 for the year (2002: a decrease of HK\$350,000) is credited/charged to the consolidated income statement.

The investment property was vacant during the year.

## 13. INTERESTS IN SUBSIDIARIES

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>227,220</b>	102,608
Less: Provision for impairment losses	<b>(94,802)</b>	(94,802)
	<b>132,418</b>	7,806
Amounts due from subsidiaries	<b>158,619</b>	226,978
Less: Provision for doubtful debts	<b>(141,531)</b>	(117,625)
	<b>17,088</b>	109,353
	<b>149,506</b>	117,159

The amounts due from/(to) 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, 2003.

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## 13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries as at 31st December, 2003 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.	The USA	Ordinary US\$17,000,000	100	–	Investment holding
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
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 Ψ 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

## Notes to the Financial Statements

For the year ended 31st December, 2003

## 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 %	
#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
*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	Ceased operations
△沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.)	Shenyang, the PRC	RMB30,000,000	-	51	Manufacture of automobile axles
*蘇州連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	Ceased operations
*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.

Ψ 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

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COMPASS PACIFIC HOLDINGS LIMITED

### 14. INVENTORIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Plush toys – at cost	167	291
Spare parts and other consumables – at net realisable value	–	430
	167	721

### 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, 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 90 days	–	3,317
Over 90 days	127	–
	127	3,317
Less: Provision for doubtful debts	–	–
	127	3,317

### 16. OTHER RECEIVABLES

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Other receivables	11,780	9,246	2,846	2,654
Less: Provision for doubtful debts	(6,074)	(3,000)	–	–
	5,706	6,246	2,846	2,654

## Notes to the Financial Statements

For the year ended 31st December, 2003

### 17. CASH AND CASH EQUIVALENTS

As at 31st December, 2003, cash and cash equivalents of the Group denominated in Chinese Renminbi ("RMB") amounted to approximately HK\$1,002,000 (2002: HK\$14,340,000). 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, 2003 is as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
0 – 90 days	<b>102</b>	78
Over 90 days	<b>522</b>	520
	<u><b>624</b></u>	<u>598</u>

### 19. 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 to a related company is unsecured, non-interest bearing and repayable on demand and mainly arose from transaction stated in note (b) below.
- (b) During the year, the Group entered into the following transactions with related parties:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Sales to a related company of a joint venture partner	<b>12,585</b>	3,318
Purchases from a related company of a joint venture partner	<b>12,367</b>	6,006

The above transactions were carried out after negotiations between the Group and the related companies in the ordinary course of business and on normal commercial terms as determined by the directors.

For the year ended 31st December, 2003

## 20. SHARE CAPITAL

	2003		2002	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	<b>3,000,000,000</b>	<b>300,000</b>	3,000,000,000	300,000
<i>Issued and fully paid:</i>				
At 1st January, 2003	<b>1,263,634,000</b>	<b>126,363</b>	1,263,634,000	126,363
Increase during year	<b>631,817,000</b>	<b>63,182</b>	–	–
At 31st December, 2003	<b>1,895,451,000</b>	<b>189,545</b>	1,263,634,000	126,363

Pursuant to an open offer of new shares to qualifying shareholders on 13th November, 2003, the Company issued 631,817,000 ordinary shares with a nominal value of HK\$0.10 each on 5 December 2003, at HK\$0.106 per share for a total cash consideration, before expenses, of HK\$66,972,602. These shares rank pari passu in all respects with the existing issued shares of the Company.

For the year ended 31st December, 2003

## 21. SHARE OPTIONS

On 12th June 2003, the share option scheme adopted by the Company on 15th March 1995 (the "1995 Scheme") was terminated and a new share option scheme (the "2003 Scheme") was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The 2003 Scheme became effective on 12th June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the 2003 Share Option Scheme. The offer of a grant may be accepted upon payment of HK\$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company's shares.

During the year ended 31st December 2003, no share option previously granted under the 1995 Scheme was exercised or cancelled and no share option was granted under the 1995 Scheme and the 2003 Scheme.

At 31st December 2003, share options outstanding have the following terms:

Exercise price per share	Number of share options					
	HK\$0.690		HK\$0.382		Total	
	2003	2002	2003	2002	2003	2002
Directors	<b>10,000,000</b>	10,000,000	<b>32,370,000</b>	32,370,000	<b>42,370,000</b>	42,370,000
Other employees	<b>4,800,000</b>	4,800,000	<b>9,400,000</b>	9,400,000	<b>14,200,000</b>	14,200,000
	<b>14,800,000</b>	14,800,000	<b>41,770,000</b>	41,770,000	<b>56,570,000</b>	56,570,000

For the year ended 31st December, 2003

## 22. RESERVES

**The Group**

	<b>Share premium</b> <i>HK\$'000</i>	<b>Translation reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>At 31st December, 2003</b>	<b>262,529</b>	<b>(2,304)</b>	<b>(302,398)</b>	<b>(42,173)</b>
At 31st December, 2002	260,592	(2,332)	(250,998)	7,262

**The Company**

	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st January, 2002	260,592	94,601	(292,208)	62,985
Loss for the year	–	–	(51,811)	(51,811)
At 31st December, 2002 and 1st January, 2003	260,592	94,601	(344,019)	11,174
Loss for the year	–	–	(49,023)	(49,023)
Issue of share capital	1,937	–	–	1,937
<b>At 31st December, 2003</b>	<b>262,529</b>	<b>94,601</b>	<b>(393,042)</b>	<b>(35,912)</b>

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.

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.



For the year ended 31st December, 2003

## 22. RESERVES (Continued)

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, 2003 (2002: Nil).

## 23. 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, 2003 not provided for in the financial statements of the Group and the Company are summarised as follows:

	<b>The Group and the Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Contracted for	<b>7,366</b>	10,845
Authorised but not contracted for	—	—
	<b><u>7,366</u></b>	<u>10,845</u>

In current year, the Company has decided to terminate its contribution to the above research project in view of the absence of foreseeable future revenue to be generated to the Group and Columbia failed to provide the Group with a written report summarizing research activities. Contribution payable to Columbia for the year has been fully provided for and charged to the results of the Company and the Group for the year.

For the year ended 31st December, 2003

## 23. COMMITMENTS AND CONTINGENCY (Continued)

**(b) Capital commitments**

As at 31st December, 2003, the Group had the following commitments for capital expenditure in respect of manufacture and sale of automobile axles:

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Contracted for	<b>1,702</b>	–
Authorised but not contracted for	–	–
	<u>1,702</u>	<u>–</u>

The Company has no capital commitment at 31st December 2003.

**(c) Lease commitments**

As at 31st December, 2003, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>2,073</b>	30
After one year but within five years	<b>4,387</b>	–
	<u>6,460</u>	<u>30</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.

The Company has no lease commitment at 31st December 2003.

**(d) 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.

For the year ended 31st December, 2003

#### 24. 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.

The retirement benefit scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31st December, 2003, the Group's contributions were approximately HK\$518,000 (2002: HK\$524,000). There was no (2002: 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.

#### 25. BANKING FACILITIES

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Other banking facilities	<u>500</u>	<u>500</u>

As at 31st December, 2003, a subsidiary of the Company had aggregate banking facilities of HK\$500,000 (2002: HK\$500,000), all of them remained unutilised. The facilities are secured by bank deposits of HK\$700,000 (2002: certificates of deposits of HK\$1,000,000).

#### 26. OTHER LOAN RECEIVABLE

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Other loan receivable – unsecured	<b>1,558</b>	–
Less: Current portion due within one year included in other receivables under current assets	<u>(312)</u>	<u>–</u>
Non-current portion under non-current assets	<u><b>1,246</b></u>	<u>–</u>

The balance represents an unsecured loan made to a member of the senior management of the Group. The loan bears interest at one year LIBOR (subject to adjustment annually in October) and will be repayable by ten installments in five years.

### 27. LEGAL PROCEEDINGS

On 1st December, 2003, the PRC joint venture partner of Shanghai Whimsy Amusement Co., Limited ("Shanghai JV"), a subsidiary of the Company, commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK\$454,000. A provision has been made in the financial statements in respect of such guaranteed profits to the PRC joint venture partner.

### 28. POST BALANCE SHEET EVENTS

- (i) Subsequent to the balance sheet date, American Compass Inc., a subsidiary, has acquired a 6.5% equity interests in an American company for a cash consideration of US\$2,750,000 (equivalent to HK\$21,422,500).
- (ii) During the year the Group entered into a purchase contract with a supplier for the acquisition of certain machineries in the PRC and paid a deposit of HK\$10,566,000 which was included in prepayments and deposits in the consolidated balance sheet as at 31st December 2003. Subsequent to the balance sheet date the purchase contract was cancelled and the deposit was fully refunded to the Group.

### 29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 25 to 57 were approved by the board of directors on 28th April, 2004.