

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 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2003 annual accounts.

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 2004			
	Toys	Property investment and management	Eliminations	Group
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue				
Turnover	421,791	14,867	–	436,658
Inter-segment revenue (<i>Note iii</i>)	–	284	(284)	–
	<u>421,791</u>	<u>15,151</u>	<u>(284)</u>	<u>436,658</u>
Results				
Segment results	40,385	9,758	–	50,143
Inter-segment transactions	(284)	284	–	–
	<u>40,101</u>	<u>10,042</u>	<u>–</u>	<u>50,143</u>
Unallocated costs				<u>(4,879)</u>
Operating profit				<u>45,264</u>

	Six months ended 30 June 2003			
	Toys	Property investment and management	Eliminations	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue				
Turnover	260,473	16,893	–	277,366
Inter-segment revenue (<i>Note iii</i>)	–	506	(506)	–
	<u>260,473</u>	<u>17,399</u>	<u>(506)</u>	<u>277,366</u>
Results				
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				(4,306)
Operating profit				<u>13,020</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\$2,034,000 (2003: HK\$4,069,000), 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	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
America				
– USA	307,574	219,248	20,318	117
– Others	17,758	6,758	2,218	850
Europe	78,595	24,139	14,551	2,473
Asia Pacific	31,559	26,549	12,844	13,847
Others	1,172	672	212	39
	<u>436,658</u>	<u>277,366</u>	<u>50,143</u>	<u>17,326</u>

3. Profit before taxation

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	171,766	100,505
Staff costs	32,900	30,409
Amortisation of goodwill	485	485
Depreciation of fixed assets	12,287	13,747
Loss on disposal of fixed assets	506	–
	<u>217,944</u>	<u>145,156</u>
Crediting:		
Interest income from bank deposits	1,680	1,075
Dividend income from other investments	1,464	556
	<u>3,144</u>	<u>1,631</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. 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:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	742	371
Overseas taxation	1,270	–
Over-provision in prior years	–	(108)
	<u>2,012</u>	<u>263</u>
Deferred taxation		
Origination and reversal of temporary differences	825	1,386
Deferred taxation resulting from an increase in tax rate	–	1,032
	<u>825</u>	<u>2,418</u>
	<u>2,837</u>	<u>2,681</u>

5. Dividend

At a meeting held on 6 August 2004, the directors declared an interim dividend of HK cents 2 (2003: HK cent 1) per share for the year ending 31 December 2004 to be paid on 6 September 2004 to shareholders on the Company's Register of Members on 30 August 2004. 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 2004.

6. Earnings per share

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>37,211</u>	<u>9,911</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,553,168,000</u>	<u>1,217,863,000</u>
Number of potential ordinary shares issuable under share options and warrants	<u>16,684,000</u>	<u>90,136,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,569,852,000</u>	<u>1,307,999,000</u>

7. Trade receivables

As at 30 June 2004, 99.2% (31 December 2003: 99.8%) of the trade receivables net of provisions were current to 30 days, 0.1% (31 December 2003: nil) 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 granted to tenants.

8. Bank loans

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	3,480	133,123
In the second year	3,495	16,945
In the third to fifth years	10,574	55,776
After the fifth year	26,865	100,068
	44,414	305,912
Unsecured bank loan payable within one year	9,588	24,911
	54,002	330,823
Current portion included in current liabilities	(13,068)	(158,034)
	40,934	172,789

As at 30 June 2004, the Group had banking facilities amounting to approximately HK\$366 million (31 December 2003: HK\$511 million), of which HK\$58 million (31 December 2003: HK\$333 million) were utilised.

The banking facilities of certain subsidiaries are secured by bank balances of HK\$nil (31 December 2003: HK\$49 million), other investments of HK\$nil (31 December 2003: HK\$112 million) and investment properties with aggregate net book value of HK\$524 million (31 December 2003: HK\$542 million) of the Group at 30 June 2004.

9. Trade payables

As at 30 June 2004, 96.5% (31 December 2003: 73.0%) of the trade payables were current to 30 days, 1.4% (31 December 2003: 24.0%) were 31 to 60 days and the remaining were over 60 days.

10. Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 30 June 2004 and 31 December 2003	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2003	1,210,867,810	121,087
Issue of shares	130,000,000	13,000
Exercise of warrants	190,364,030	19,036
Exercise of share options	<u>15,186,000</u>	<u>1,519</u>
At 1 January 2004	1,546,417,840	154,642
Exercise of warrants (<i>Note i</i>)	11,099,771	1,110
Exercise of share options	<u>2,717,000</u>	<u>271</u>
At 30 June 2004	<u>1,560,234,611</u>	<u>156,023</u>

Notes:

- (i) The warrants were exercisable from 13 May 2002 to 12 May 2004 at an initial subscription price of HK\$0.30 per share (subject to adjustment). On 12 May 2004, 346,100 warrants which had not been exercised, were lapsed.
- (ii) On 20 May 2004, 311,831,475 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 14 May 2004 on the basis of the bonus issue of one warrant for every five shares held. These warrants are exercisable from 24 May 2004 to 23 May 2005 at an initial subscription price of HK\$1.42 per share (subject to adjustment). As at 30 June 2004, all the warrants issued on 20 May 2004 remained unexercised.

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 2004 were payable as follows:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Within one year	17,148	4,695
In the second to fifth years inclusive	19,890	5,256
	37,038	9,951

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 2004, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Within one year	9,040	9,961
In the second to fifth years inclusive	12,213	15,058
After the fifth year	1,954	2,005
	23,207	27,024

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$6,748,000 (31 December 2003: HK\$6,009,000).

(b) As lessor

At 30 June 2004, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within one year	23,373	24,014
In the second to fifth years inclusive	13,593	17,344
	<u>36,966</u>	<u>41,358</u>

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 2004.