

# Notes to the Accounts

31 December 2003

## 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below.

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The accounts are prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and other investments are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice (“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 effect of adopting this revised standard are set out in note 1(h) below.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31 December. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are recorded in the Company’s books at cost, being the fair value of the consideration given plus related acquisition costs, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Negative goodwill arising on consolidation represents the excess of the fair value of the net assets of subsidiaries acquired over the purchase consideration. Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the net assets of subsidiaries acquired. Any goodwill on acquisitions of subsidiaries occurring on or after 1 January 2001 is included as an intangible asset and amortised over its estimated useful economic life to the Group of ten years in accordance with SSAP 30.

# Notes to the Accounts

31 December 2003

## 1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

### (b) Group accounting (*Continued*)

Any goodwill or negative goodwill on acquisitions of subsidiaries occurring prior to 1 January 2001 was charged or credited, as appropriate, directly to reserves on consolidation.

The turnover and results of subsidiaries are included in the group accounts from the date of acquisition. In the case of disposals, turnover and results are included up to the date of disposal.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or reserve on consolidation which was not previously charged or recognised in the consolidated profit and loss account.

#### (ii) *Associated companies*

Associated companies are companies other than subsidiaries in which the Group effectively holds a long term equity investment and over whose management it is able to exercise significant influence.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of associated companies.

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of associated companies, is recognised as an asset and amortised through the consolidated profit and loss account over their estimated economic lives to the Group of between three and fifteen years as deemed appropriate.

### (c) Fixed assets

#### (i) *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, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

(ii) *Other fixed assets*

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the costs of these assets on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are as follows:

	Percent
Machinery, equipment, furniture and fixtures	10 to 13
Computers	20 to 25

The Group owns the moulds and tools used in the production of the Group's products by third party manufacturers. All moulds and tools are depreciated in full in the year of initial product shipment.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether the recoverable amounts of other fixed assets have declined below their carrying amounts. When such a decline has occurred, the carrying amount of the asset is reduced to its recoverable amount.

The gain or loss on disposal of other fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

# Notes to the Accounts

31 December 2003

## 1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

### (d) Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to the profit and loss account on a straight-line basis over the lease term.

### (e) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (f) Inventories

Inventories comprise toys merchandise and are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (g) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (h) 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 revised 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 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 year ended 31 December 2002 has been increased by HK\$1,346,000.

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 year ended 31 December 2002 has been increased by HK\$969,000.

**(i) Revenue recognition**

Revenue from sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time of product shipment.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Rental income from letting the Group's portfolio of investment properties is recognised on a straight-line basis over the lease term.

Property management income is recognised when services are rendered.

# Notes to the Accounts

31 December 2003

## 1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

### (j) Advertising and marketing expenses, advanced royalties and product development costs

Advertising and marketing expenses are expensed as incurred, except for the production costs of commercials and related programming costs which are deferred and expensed in the year the commercial is first aired.

Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements which are recoupable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

Expenses relating to product development are charged to the profit and loss account as incurred. In prior years, these expenses were deferred and charged to the profit and loss account in the year of initial product shipment. The effect of this change on the accounts is not material.

### (k) Employee benefits

#### (i) *Employee leave entitlements*

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

#### (ii) *Equity compensation benefits*

Share options are granted to directors and employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, a compensation cost is recognised in the profit and loss account based on the discount.

When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (par value) and share premium.

*(iii) Pension obligations*

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

**(l) Borrowing costs**

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

**(m) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment less bank overdrafts.

**(n) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as movements in reserves.

**(o) Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical one as the secondary reporting format.

# Notes to the Accounts

31 December 2003

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) Segment reporting (Continued)

Unallocated costs represent mainly corporate and inactive subsidiaries' expenses. Segment assets consist primarily of fixed assets, goodwill, inventories, receivables and operating cash, and exclude other investments. Segment liabilities comprise bank loans and operating liabilities. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries.

In respect of geographical segment reporting, turnover and results are based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

## 2 TURNOVER, REVENUES AND 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. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>		
Sales of toys	945,464	456,112
Rental income from investment properties	28,898	26,685
Property management income	3,402	2,464
	977,764	485,261
<b>Other revenues</b>		
Interest income from bank deposits	2,625	2,647
Dividend income from other investments	1,284	1,080
	3,909	3,727
<b>Total revenues</b>	<b>981,673</b>	<b>488,988</b>



## Business segments

An analysis of the Group's turnover, results, assets and liabilities by business segments is as follows:

	Year ended 31 December 2003			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	Group HK\$'000
<b>Revenue</b>				
Turnover	945,464	32,300	–	977,764
Inter-segment revenue ( <i>Note (iii)</i> )	–	1,011	(1,011)	–
	945,464	33,311	(1,011)	977,764
<b>Results</b>				
Segment results	113,164	(25,979)	–	87,185
Inter-segment transactions	(1,011)	1,011	–	–
	112,153	(24,968)	–	87,185
Unallocated costs				(7,875)
Operating profit				79,310
<b>Assets</b>				
Segment assets	388,761	560,009	(245)	948,525
Investment in associated companies	39,631	–	–	39,631
				988,156
Unallocated assets				526,041
Total assets				1,514,197
<b>Liabilities</b>				
Segment liabilities	407,858	216,490	(245)	624,103
Unallocated liabilities				1,691
Total liabilities				625,794
<b>Other information</b>				
Capital expenditure	28,085	171	–	28,256
Depreciation	28,856	199	–	29,055
Amortisation of goodwill	–	969	–	969

## Notes to the Accounts

31 December 2003

### 2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

#### Business segments (Continued)

	Year ended 31 December 2002 (As restated)			
	Toys HK\$'000	Property investment and management HK\$'000	Elimination HK\$'000	(As restated) Group HK\$'000
<b>Revenue</b>				
Turnover	456,112	29,149	–	485,261
Inter-segment revenue (Note (iii))	–	1,534	(1,534)	–
	456,112	30,683	(1,534)	485,261
<b>Results</b>				
Segment results	3,785	17,053	–	20,838
Inter-segment transactions	(1,534)	1,534	–	–
	2,251	18,587	–	20,838
Unallocated costs				(8,873)
Operating profit				11,965
<b>Assets</b>				
Segment assets	222,353	611,622	(657)	833,318
Investment in associated companies	40,825	–	–	40,825
				874,143
Unallocated assets				243,484
Total assets				1,117,627
<b>Liabilities</b>				
Segment liabilities	324,317	229,208	(657)	552,868
Unallocated liabilities				1,164
Total liabilities				554,032
<b>Other information</b>				
Capital expenditure	24,789	55,162	–	79,951
Depreciation	30,002	98	–	30,100
Amortisation of goodwill	–	969	–	969

*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 year amounted to HK\$194,000 (2002: HK\$4,729,000), which has not been included in the segment results shown above.

### Geographical segments

A geographical analysis of the Group's turnover, segment results, segment assets and capital expenditure is as follows:

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Segment assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
North America	800,847	87,273	380,071	25,948
Europe	110,512	19,581	–	–
Asia Pacific	57,710	(21,420)	568,454	2,308
Others	8,695	1,751	–	–
	977,764	87,185	948,525	28,256

	Turnover 2002 HK\$'000	(As restated) Segment results 2002 HK\$'000	(As restated) Segment assets 2002 HK\$'000	Capital expenditure 2002 HK\$'000
North America	424,500	3,375	213,441	24,105
Europe	27,364	1,154	–	–
Asia Pacific	33,205	16,290	619,877	55,846
Others	192	19	–	–
	485,261	20,838	833,318	79,951

## Notes to the Accounts

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### 3 OPERATING PROFIT

The operating profit is stated after charging the following:

	2003	(As restated) 2002
	HK\$'000	HK\$'000
Cost of inventories sold	373,034	183,972
Depreciation of fixed assets	29,055	30,100
Amortisation of goodwill (included in selling, distribution and administration expenses)	969	969
Staff costs, including directors' remuneration ( <i>Note 10</i> )	75,636	73,183
Operating leases expense on office and warehouse facilities	10,748	10,599
Loss on disposal of fixed assets	1	236
Product development costs	15,646	19,887
Outgoings in respect of investment properties	2,370	3,075
Auditors' remuneration	1,350	1,350

### 4 INTEREST EXPENSE AND BANK CHARGES

	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	9,347	9,846
Other incidental borrowing costs	8,079	5,388
	17,426	15,234

### 5 NET GAIN ON OTHER INVESTMENTS

	2003	2002
	HK\$'000	HK\$'000
Net realised gain on other investments	2,811	17,001
Net unrealised gain/(loss) on other investments	17,767	(12,102)
	20,578	4,899

## 6 TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government of Hong Kong enacted a change in the profits tax rate 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 amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	(As restated) 2002 HK\$'000
<b>Current taxation</b>		
Hong Kong profits tax	320	351
Overseas taxation	10,917	–
Under/(over) provision in prior years	55	(26)
	11,292	325
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	2,204	1,346
Deferred taxation resulting from an increase in tax rate	1,032	–
	3,236	1,346
	14,528	1,671
Share of taxation attributable to associated companies	579	636
	15,107	2,307

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	86,756	1,264
Calculated at a taxation rate of 17.5% (2002: 16%)	15,182	202
Effect of different taxation rates in other countries	25,875	(462)
Non-taxable income	(4,850)	(4,821)
Non-deductible expenses for tax purposes	10,497	4,160
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	1,032	–
Unrecognised temporary differences and tax losses	5,335	3,184
Utilisation of previously unrecognised tax losses	(38,037)	(15)
Prior year under/(over) provision	55	(26)
Current year over provision	18	85
Taxation charge	15,107	2,307

## Notes to the Accounts

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### 7 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$43,015,000 (2002: a loss of HK\$1,444,000).

### 8 DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid of HK\$0.01 (2002: HK\$nil) per share	13,083	–
Final dividend proposed of HK\$0.02 (2002: HK\$nil) per share	30,928	–
	44,011	–

At a meeting held on 27 February 2004, the directors proposed a final dividend of HK\$0.02 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

### 9 EARNINGS/(LOSS) PER SHARE

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

	2003 HK\$'000	(As restated) 2002 HK\$'000
Profit/(loss) attributable to shareholders for the purpose of calculating basic and diluted earnings/(loss) per share	71,649	(1,043)
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	1,286,206,635	1,141,201,081
Number of potential ordinary shares issuable under share options and warrants	19,367,184	286,560
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	1,305,573,819	1,141,487,641

## 10 STAFF COSTS

	2003 HK\$'000	2002 HK\$'000
Wages, salaries and other benefits	74,061	72,481
Contributions to defined contribution schemes	1,904	1,742
Forfeited contributions	(329)	(1,040)
	75,636	73,183

As at 31 December 2003 and 2002, there was no contribution payable and no forfeited contribution available to reduce future contributions.

## 11 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

The aggregate amounts of the directors' emoluments are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	250	200
Basic salaries, housing allowances, other allowances and benefits in kind	3,556	7,153
Pension contributions	20	42
	3,826	7,395

Directors' emoluments disclosed above include directors' fees of HK\$150,000 (2002: HK\$200,000) and other emoluments of HK\$645,500 (2002: HK\$150,000) for the independent non-executive directors.

The numbers of directors whose emoluments for the year fell within the designated bands are as follows:

HK\$	Number of directors	
	2003	2002
up to 1,000,000	7	5
1,000,001 – 1,500,000	1	2
1,500,001 – 2,000,000	–	1
2,500,001 – 3,000,000	–	1

No director has waived emoluments in respect of the years ended 31 December 2003 and 2002.

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### 11 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

#### (b) Five highest paid individuals' emoluments

Among the five top-paid individuals, none (2002: one) of them is a director whose remuneration during the period of directorship is disclosed above. Total remuneration of the five (2002: the other four) highest paid individuals, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited, are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	15,113	9,854
Discretionary bonuses	5,788	–
Pension contributions	348	269
	21,249	10,123

The emoluments of these highest paid individuals fell within the following bands:

HK\$	Number of individuals	
	2003	2002
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	–	2
3,000,001 – 3,500,000	1	–
3,500,001 – 4,000,000	1	1
4,000,001 – 4,500,000	1	–
4,500,001 – 5,000,000	1	–
5,000,001 – 5,500,000	1	–



## 12 GOODWILL – GROUP

	HK\$'000
<b>Cost</b>	
At 1 January and 31 December 2003	9,690
<b>Accumulated amortisation</b>	
At 1 January 2003	1,776
Amortisation for the year	969
At 31 December 2003	2,745
<b>Net book value</b>	
At 31 December 2003	6,945
At 31 December 2002	7,914

## 13 FIXED ASSETS – GROUP

	Investment properties HK\$'000	Machinery, equipment, furniture and fixtures HK\$'000	Moulds and tools HK\$'000	Computers HK\$'000	Total HK\$'000
<b>Cost or valuation</b>					
At 1 January 2003	591,300	30,706	375,481	33,447	1,030,934
Additions	–	1,722	22,485	4,049	28,256
Deficit on revaluation	(49,300)	–	–	–	(49,300)
Disposals	–	(265)	–	(2,784)	(3,049)
At 31 December 2003	542,000	32,163	397,966	34,712	1,006,841
<b>Accumulated depreciation</b>					
At 1 January 2003	–	27,183	375,481	26,594	429,258
Charge for the year	–	1,691	22,485	4,879	29,055
Disposals	–	(264)	–	(2,784)	(3,048)
At 31 December 2003	–	28,610	397,966	28,689	455,265
<b>Net book value</b>					
At 31 December 2003	542,000	3,553	–	6,023	551,576
At 31 December 2002	591,300	3,523	–	6,853	601,676

## Notes to the Accounts

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### 13 FIXED ASSETS – GROUP (Continued)

The Group's interests in investment properties at their net book values are analysed as follows:

	2003 HK\$'000	2002 HK\$'000
<b>In Hong Kong, held on:</b>		
Lease of over 50 years	18,000	16,300
Leases of between 10 to 50 years	524,000	575,000
	542,000	591,300

The investment properties were revalued by FPD Savills (Hong Kong) Limited, an independent professional valuer, on an open market value basis as at 31 December 2003. The deficit arising on revaluation of HK\$49,300,000 was charged to the profit and loss account.

Other fixed assets are stated at cost.

Details of the principal properties of the Group as at 31 December 2003 are as follows:

Location	Use	Lease expiry	Approximate gross floor area	Group's interest
The Toy House 100 Canton Road Tsimshatsui	Commercial	2049	107,400 Sq. ft.	100 %
Playmates Factory Building 1 Tin Hau Road Tuen Mun	Industrial	2047	317,100 Sq. ft.	100 %

### 14 INVESTMENT IN SUBSIDIARIES – COMPANY

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	10,702	10,702
Less: Provision for impairment losses	(7,525)	(7,525)
	3,177	3,177
Amounts due from subsidiaries, net of provisions	1,175,586	873,787
Amounts due to subsidiaries	(200,767)	(201,065)
	977,996	675,899

The amounts due from/to subsidiaries are unsecured, have no fixed terms of repayment and are interest free except for the amounts due from subsidiaries of HK\$287,852,000 (2002: HK\$309,002,000) which bear interest at Hong Kong Interbank Money Market Offer Rate ("HIBOR") plus 1% (2002: HIBOR plus 1%) per annum.

Details of the principal subsidiaries of the Company as at 31 December 2003 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities and place of operation
Shares held directly:				
Playmates International Limited	The British Virgin Islands	5 ordinary shares of US\$1 each	100%	Investment holding in Hong Kong
Shares held indirectly:				
Playmates Asia Services Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Provision of services, based in Hong Kong
Belmont Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	Property investment in Hong Kong
Bagnols Limited	Hong Kong	3,001,000 ordinary shares of HK\$10 each	100%	Property investment in Hong Kong
Bandol Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment in Hong Kong
Bourges Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Property investment in Hong Kong
Prestige Property Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Property management in Hong Kong
PIL Finance Limited	The British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding in Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stock of US\$30 each	100%	Toys development, marketing and distribution in the U.S.A.

The above table includes subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## Notes to the Accounts

31 December 2003

### 15 INVESTMENT IN ASSOCIATED COMPANIES – GROUP

	2003 HK\$'000	2002 HK\$'000
Share of net assets other than goodwill	19,515	18,356
Share of goodwill	8,117	9,470
	27,632	27,826
Loan to an associated company	11,999	12,999
	39,631	40,825
Unlisted shares, at cost	18,078	18,078

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

As at 31 December 2003, the Group held interests in the following associated companies:

Name of company	Place of incorporation	Particulars of issued shares held	Effective percentage holding
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	Ordinary shares of US\$1 each	49%
Nippon Toys Limited ("NTL")	Hong Kong	Ordinary shares of HK\$1 each	50%

The associated companies are held indirectly by the Company and operate in Hong Kong.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys and dolls.

The principal business of NTL is to develop and act as sourcing and purchasing agent of finished products such as toys, novelties, sales promotion items, premiums and gift products.

## 16 OTHER INVESTMENTS – GROUP

	2003 HK\$'000	2002 HK\$'000
<b>Non-current</b>		
Equity securities listed in Hong Kong, at market value	–	16,807
<b>Current</b>		
Equity securities, at market value		
Listed in Hong Kong	–	9,363
Listed outside Hong Kong	68,166	50,369
Unlisted equity funds	43,321	–
Debt securities, at market value		
Listed outside Hong Kong	5,207	5,598
	116,694	65,330
	116,694	82,137

## 17 INVENTORIES – GROUP

As at 31 December 2003, inventories that are carried at net realisable value amounted to HK\$29,108,000 (2002: HK\$22,042,000).

## 18 TRADE RECEIVABLES – GROUP

As at 31 December 2003, 99.8% (2002: 99.7%) of the trade receivables net of provisions were current to 30 days, nil (2002: 0.1%) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toys 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.

## Notes to the Accounts

31 December 2003

### 19 BANK LOANS – GROUP

	2003 HK\$'000	2002 HK\$'000
<b>Secured bank loans payable:</b>		
Within one year	133,123	132,300
In the second year	16,945	16,122
In the third to fifth years	55,776	53,305
After the fifth year	100,068	119,485
	305,912	321,212
Unsecured bank loan payable within one year	24,911	45,308
	330,823	366,520
Current portion included in current liabilities	(158,034)	(177,608)
	172,789	188,912

As at 31 December 2003, the Group has banking facilities amounting to approximately HK\$511 million (2002: HK\$526 million), of which HK\$333 million (2002: HK\$378 million) were utilised.

The banking facilities of certain subsidiaries are secured by bank balances of HK\$49 million (2002: HK\$101 million), other investments of HK\$112 million (2002: HK\$56 million) and investment properties with aggregate net book value of HK\$542 million (2002: HK\$591 million) of the Group at 31 December 2003.

### 20 TRADE PAYABLES – GROUP

As at 31 December 2003, 73.0% (2002: 87.3%) of the trade payables were current to 30 days, 24.0% (2002: 8.5%) were 31 to 60 days and the remaining were over 60 days.

## 21 DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated taxation depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2002, as restated	9,483	(1,440)	8,043
Acquisition of a subsidiary	2,360	(742)	1,618
Charged to profit and loss account	1,175	171	1,346
At 31 December 2002, as restated	13,018	(2,011)	11,007
At 1 January 2003, as restated	13,018	(2,011)	11,007
Charged to profit and loss account	2,233	1,003	3,236
<b>At 31 December 2003</b>	<b>15,251</b>	<b>(1,008)</b>	<b>14,243</b>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets are recognised for tax losses carry forward and deductible temporary differences to the extent that realisation of the related tax benefit through the future taxable profits is probable. Details of unrecognised deferred tax assets as at the year end are as follows:

	2003 HK\$'000	(As restated) 2002 HK\$'000
Deductible temporary differences	25,295	19,280
Unutilised tax losses	99,835	151,663
	125,130	170,943

The unrecognised deferred tax assets relate to temporary differences under the federal and state taxes in the United States of America, and have been calculated using the federal and state tax rates of 34% (2002: 34%) and 7.56% (2002: 9.26%) respectively.

## Notes to the Accounts

31 December 2003

### 21 DEFERRED TAXATION – GROUP (Continued)

Of the unrecognised deferred tax asset on unused tax losses, HK\$9,950,000 (2002: HK\$12,188,000) relates to unused tax losses which will expire within five years from the balance sheet date and the remaining balance relates to unused tax losses which will expire from 2012 to 2022 (2002: from 2012 to 2022).

There is no expiry date for the above deductible temporary differences.

The deferred tax liabilities shown in the consolidated balance sheet are expected to be settled after more than 12 months.

### 22 SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.10 each No. of shares	HK\$'000
<b>At 31 December 2002 and 2003</b>	<b>3,000,000,000</b>	<b>300,000</b>
	Issued and fully paid	
	Ordinary shares of HK\$0.10 each 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	–
<b>At 1 January 2003</b>	<b>1,210,867,810</b>	<b>121,087</b>
Issue of shares ( <i>Note (i)</i> )	130,000,000	13,000
Exercise of warrants ( <i>Note (ii)</i> )	190,364,030	19,036
Exercise of share options ( <i>Note (iii)</i> )	15,186,000	1,519
<b>At 31 December 2003</b>	<b>1,546,417,840</b>	<b>154,642</b>

Notes:

- (i) The Group raised net proceeds of approximately HK\$204 million by way of a top-up placement of a total of 130,000,000 shares of HK\$0.10 each in the capital of the Company at the price of HK\$1.60 per share (“Top-up Placing”). The Top-up Placing was completed on 1 December 2003.
- (ii) 201,811,101 warrants were issued on 7 May 2002 on the basis of one warrant for every one fully-paid rights share accepted. 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 31 December 2003, 11,445,871 warrants were outstanding.



- (iii) At the Special General Meetings of the Company held on 4 May 1998 and 28 June 2002, a Share Option Plan (“Plan”) and a Share Option Scheme (“Scheme”) respectively were approved and adopted. A nominal consideration at HK\$10 or US\$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2003	2002
At the beginning of the year	51,653,000	52,465,000
Granted ( <i>Note (a)</i> )	13,772,000	20,324,000
Exercised ( <i>Note (b)</i> )	(15,186,000)	–
Lapsed	(4,015,000)	(22,248,000)
Additions due to rights issue adjustment	–	1,112,000
At the end of the year ( <i>Note (c)</i> )	46,224,000	51,653,000

*Notes:*

- (a) Share options were granted to directors and employees on 10 March 2003 at the exercise price of HK\$0.550 per share (2002: 9 August 2002 at HK\$0.199) and expiring on 9 March 2013 (2002: expiring on 8 August 2012). The market price on 7 March 2003, being the trading day immediately before the date on which the options were granted was HK\$0.590 per share. Consideration received was HK\$813 (2002: HK\$833) in respect of the share options granted during the year.
- (b) These share options were exercised during the year ended 31 December 2003 at exercise prices ranging from HK\$0.199 to HK\$0.626 (2002: N/A).
- (c) Share options outstanding at the end of the year have the following terms:

Expiry Date	Exercise price	Number of options		Vested number of options	
		2003	2002	2003	2002
		'000	'000	'000	'000
<b>Directors</b>					
25 August 2008	0.532	529	529	529	529
26 May 2009	0.506	529	529	529	399
19 October 2009	0.434	660	660	660	498
21 July 2010	0.626	551	551	441	331
20 May 2011	0.297	1,024	2,048	614	819
8 August 2012	0.199	4,200	6,200	1,600	1,550
9 March 2013	0.550	1,200	–	300	–
		8,693	10,517	4,673	4,126
<b>Other employees</b>					
14 May 2008	0.532	2,619	5,464	2,619	5,464
26 May 2009	0.506	963	1,569	963	1,172
16 August 2009	0.419	–	1,764	–	1,331
21 July 2010	0.626	1,580	2,879	1,114	1,727
20 May 2011	0.297	4,158	8,057	1,115	3,223
27 August 2011	0.294	8,163	8,163	4,898	3,265
8 August 2012	0.199	8,977	13,240	2,757	3,310
9 March 2013	0.550	11,071	–	1,957	–
		37,531	41,136	15,423	19,492
		46,224	51,653	20,096	23,618

No share options were cancelled during the year (2002: nil).

## Notes to the Accounts

31 December 2003

### 23 RESERVES

#### Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002	80,007	582	452,892	533,481
Loss for the year	–	–	(1,444)	(1,444)
Issue of shares	32,290	–	–	32,290
Share issuing expenses	(1,600)	–	–	(1,600)
At 31 December 2002	110,697	582	451,448	562,727
At 1 January 2003	110,697	582	451,448	562,727
Profit for the year	–	–	43,015	43,015
2003 interim dividend paid	–	–	(13,083)	(13,083)
Issue of shares	236,950	–	–	236,950
Share issuing expenses	(4,263)	–	–	(4,263)
At 31 December 2003	343,384	582	481,380	825,346

#### Group

Included in the share premium of the Group of HK\$345,240,000 was an amount of HK\$1,856,000 which arose upon the combination of the Company and a then fellow subsidiary pursuant to a group restructuring in 1993.

## 24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash inflow/(outflow) generated from operations

	2003	(As restated) 2002
	HK\$'000	HK\$'000
Profit before taxation	86,756	1,264
Interest income	(2,625)	(2,647)
Interest on bank loans and overdrafts	9,347	9,846
Dividend income from other investments	(1,284)	(1,080)
Depreciation	29,055	30,100
Amortisation of goodwill	969	969
Revaluation deficit on investment properties	49,300	1,900
Loss on disposal of fixed assets	1	236
Net gain on other investments	(20,578)	(4,899)
Share of profits less losses of associated companies	(385)	4,093
Operating profit before working capital changes	150,556	39,782
Increase in inventories	(7,066)	(7,438)
Increase in trade receivables, other receivables, deposits and prepayments	(140,102)	(74,304)
Increase in trade payables, other payables and accrued charges	99,641	1,285
Net cash inflow/(outflow) generated from operations	103,029	(40,675)

### (b) Analysis of cash and cash equivalents

	2003	2002
	HK\$'000	HK\$'000
Cash and bank balances	471,457	206,456
Less: Deposits as securities for banking facilities ( <i>Note 19</i> )	(48,605)	(100,788)
Cash and cash equivalents	422,852	105,668

## Notes to the Accounts

31 December 2003

### 25 CONTINGENT LIABILITIES

- (a) The Company has executed guarantees amounting to approximately HK\$344 million (2002: HK\$344 million) with respect to banking facilities made available to subsidiaries. As at 31 December 2003, HK\$195 million (2002: HK\$239 million) of such banking facilities were utilised.
- (b) The Internal Revenue Service of the United States of America (“IRS”) is examining the income tax returns of the US subsidiaries for the tax years 1995, 1996 and 1997. Such examination includes review of transfer pricing methodology and timing of certain deductions, and is currently ongoing. The subsidiaries have been advised by their legal counsel that the positions taken by them in respect of the matters under IRS review are based upon substantial authority, and that the examination is unlikely to result in a material adverse effect on the financial position of the Group.
- (c) The Group has discounted bills of HK\$2,285,000 as at 31 December 2003 (2002: HK\$8,273,000).

### 26 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 the end of the year were payable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	4,695	10,724
In the second to fifth years inclusive	5,256	14,157
	9,951	24,881

The Company did not have any commitments at 31 December 2003 (2002: HK\$nil).

## 27 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 31 December 2003, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	9,961	11,438
In the second to fifth years inclusive	15,058	22,919
After the fifth year	2,005	2,856
	27,024	37,213

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$6,009,000 (2002: HK\$8,383,000).

### (b) As lessor

At 31 December 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:

	2003 HK\$'000	2002 HK\$'000
Within one year	24,014	25,146
In the second to fifth years inclusive	17,344	9,710
	41,358	34,856

## 28 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 31 December 2003.

## 29 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 27 February 2004.