KADER HOLDINGS COMPANY LIMITED

ANNUAL REPORT 2002

Contents

Corporate Information

DIRECTORS

Executive Directors:

Kenneth Ting Woo-shou, JP *(Managing Director)*
William Li Kai-wan

Non-Executive Directors:

Dr. Dennis Ting Hok-shou, OBE, JP *(Chairman)*
Liu Chee-ming
Moses Cheng Mo-chi, JP

COMPANY SECRETARY

William Li Kai-wan

AUTHORISED REPRESENTATIVES

Kenneth Ting Woo-shou
William Li Kai-wan

SOLICITORS

P.C. Woo & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

REGISTERED OFFICE

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Liu Chong Hing Bank Limited
Hang Seng Bank Limited

AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL REGISTRARS

The Bank of Bermuda Limited
6 Front Street
Hamilton 5-31
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Kader Holdings Company Limited (the "Company") will be held at 12/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 30th May, 2003 at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and Reports of the Directors and Auditors for the year ended 31st December, 2002.

2. To elect directors and fix their remuneration.

3. To appoint auditors and authorise the directors to fix their remuneration.

4. As special business to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

(A) "**THAT:**

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period of all powers of the Company to repurchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to repurchase such shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval be limited accordingly; and

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

Notice of Annual General Meeting *(Continued)*

(B) "**THAT:**

(a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period of all the powers of the Company to allot and issue shares in the capital of the Company or securities convertible into such shares, or options, warrants or similar rights to subscribe for any shares of the Company or such convertible securities, and to make or grant offers, agreements or options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company; or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend pursuant to the Bye-laws of the Company from time to time, shall not exceed the aggregate of 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval be limited accordingly;

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(C) "**THAT** conditional upon the passing of Resolutions No. 4(A) and 4(B) set out in the notice of the meeting of which this Resolution forms part, the general mandate granted under Resolution No. 4(B) above be extended by the addition of an amount representing the aggregate nominal amount of shares repurchased by the Company pursuant to and in accordance with the said Resolution No. 4(A) to the aggregate nominal amount of shares that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the said Resolution No. 4(B)"

By Order of the Board
William Li Kai-wan
Company Secretary

Hong Kong, 11th April, 2003

Notes:

(1) A member entitled to attend and vote at the meeting convened by this Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company.

(2) To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, shall be deposited at the Principal Place of Business of the Company at 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting.

(3) An explanatory statement giving the details of item no.4 of this Notice in relation to the proposed grant of general mandates to repurchase shares and to issue and allot shares of the Company will be sent to Shareholders of the Company together with the 2002 Annual Report.

Chairman's Statement

I have pleasure in presenting to our shareholders the 2002 annual report of Kader Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group").

The Board of Directors of the Company ("the Board") announces that the audited consolidated results of the Group for the year ended 31st December, 2002 recorded an operating loss of approximately HK$40 million. The Board has resolved not to recommend any payment of dividend for the financial year under review.

During the year under review, both the global economy and the financial situation of Hong Kong are facing severe operating conditions. Globally, the world economic downturn continued. Excessive production has led to low consumer demand and high unemployment rate. The deflation era that has begun further weakens the rate of recovery of the world's economy, exacerbating the effect of the recent outbreak of the war in Iraq. Internally, apart from weak consumer demand, high unemployment rate and continuing downturn of property market, Hong Kong is facing severe fiscal deficit. All these factors seriously hinder economic growth.

Furthermore, low consumer demand and global excessive production lead to pressure on selling prices. The military action in the Middle East causes a substantial rise in oil price, which eventually causes a surge in the prices of raw materials like plastic and paper, both are the major components of the Group's production cost. All these factors further tighten all toy manufacturers' operating margin and profit.

Amidst such a difficult and challenging operating environment, the Group recorded a drop in turnover by approximately 18%.

Looking ahead, the Group is cautiously optimistic that the global economy will stabilise after the war in Iraq, which is expected to be temporary. In the short term, the operating environment in Hong Kong remains challenging in the first half of year 2003. However, the Board is expecting a moderate economic rebound in the second half of the year. In his Policy Address delivered in January 2003, the Chief Executive outlined initiatives setting the direction for Hong Kong's future development and measures to eliminate the fiscal deficit. In fact, the official forecast of GDP growth for Hong Kong is 3% for year 2003. Thus, the Group is confident that consumer confidence and business sentiment will be resumed soon.

On behalf of the Board, I would like to take this opportunity to express our appreciation to our employees for their continuing dedication and commitment to the Group. I also take this opportunity to express our sincere thanks to our customers and shareholders for their invaluable and continuing confidence and support to the Group.

Dennis Ting Hok-shou
Chairman

Hong Kong, 11th April, 2003

Management Discussion and Analysis

RESULTS

The Group's turnover for the financial year ended 31st December, 2002 amounted to approximately HK$353 million, representing a decrease of 18% over that reported in the previous financial year. The loss attributable to shareholders in the financial year of 2002 is approximately HK$40 million. (2001: loss of HK$25 million).

There are two main factors leading to the drop in performance. Firstly, the global sluggish economy has adverse impact to the Group's toys business as well as our investment holdings in US. The hotel industry in US is greatly affected by the weak and unfavorable economic climate, and as a result, the Group's major US investment holding, the Resort at Squaw Creek ("the Resort") has suffered from a downward revaluation.

Secondly, a non-recurring expenditure has deteriorated the Group's overall performance. For the year under review, the Group has been involved in a litigation arising from the termination of the agency in relation to the management of the Resort. Although the performance of the Resort is going to improve because of the change in management, the Group has incurred a substantial amount (approximately HK$11 million) of legal expenses in defending and protecting the Group's interest. The legal dispute has recently been settled, and no further material legal fee is expected to arise after the completion of the settlement agreement.

With the anticipation that the effect of the war in Iraq on the global economy would be a temporary one, the Group is confident that the performance for year 2003 will improve.

BUSINESS REVIEW

Toys

The turnover of the Group's OEM & ODM business for the year under review is HK$90 million, a decrease of 52% as compared to last year.

During the year under review, the world's toys business is adversely affected by the sluggish global economy, and the Group is no exception. Consumer confidence is low, while unemployment rate is high. Retailers are cautious and hesitant in placing orders, usually with small quantities while the delivery time is short. The Middle East military action leads to fluctuation in the prices of raw materials like plastics, paper and copper etc. All these factors seriously hindered business growth and deteriorated profit margin. Furthermore, the port strike in US during the 4th quarter of year 2002 adversely affected the Group's business. The Group experienced substantial order cancellation due to delayed shipment.

Management Discussion and Analysis *(Continued)*

Although facing such harsh operating conditions, the Group is confident that the operating results will be improved in the coming year. Over the years, constant efforts have been invested in product technologies. Now, the Group has succeeded in strengthening its productivity in manufacturing electronic products, which are expected to dominate the toys market in the next few years. Tremendous achievement has also been gained in broadening the customer base; for example, the Group has secured noticeable sales orders in road racing products in the coming year. The Group has also placed substantial efforts in developing and designing its own brand name products, which have been receiving favorable response from customers. In the first quarter of year 2003, customer orders for our ODM projects have increased substantially. The Group is cautiously optimistic that all these efforts will bring substantial contribution to the Group's revenue in the medium and long term. Looking forward, the Group anticipates that both OEM and ODM businesses will have steady growth.

Model Trains

The turnover for the Group's model train business for year 2002 is approximately HK$235 million, marking a steady increase in both turnover and profit. Over the years, the Group has invested considerable efforts in developing our own brand name product line, the Graham Farish, in the European market. The Group is going to enjoy its fruitful success in the coming year. During the year under review, Graham Farish achieved a positive contribution to the Group. The Group plans to continue this successful strategy by launching more new products in the coming year. We are looking forward to achieving good performance in the European market.

In US, our model trains continue its leading position as the most successful brand in the model train hobby industry. In year 2002, the "Bachmann Spectrum N Scale 2-8-0" was awarded Product of The Year in N Scale Locomotive, and "Bachmann Spectrum 1:20.3 Scale Narrow Gauge 2-8-0" was awarded Product of The Year in Large Scale Locomotive.

Looking ahead, we are confident that our leading position in the model train industry, our high quality products and the new product development will support us to strive for good performance.

Property Investment

The Group's rental income from investment properties for the year under review amounted to approximately HK$28 million, which remains a steady contribution to the Group's revenue. The occupancy rate of the Group's Industrial Building in Kowloon Bay is steadily maintaining at over 80%. Apart from this, the Group has also managed to secure a group of stable tenants who usually committed to a medium to long-term tenancy agreement with us.

Looking ahead, the Government has been taking various measures to stimulate the recovery of the property market. With the continuing trend for a low interest rate and the Government's intention to stabilise the property market, a further slump in properties prices is not expected in the coming year. It is anticipated that the Group's rental property will continue to generate steady revenue.

Management Discussion and Analysis *(Continued)*

During the year under review, the Group has completed the transaction of disposing a piece of land in Chashan, Dongguan Province of China. The land was acquired in the early 1990s, and was previously held for investment purposes. After the acquisition, the property market in China has been sluggish for quite some years. The Group was actively looking for a buyer during the past years and disposed of the land in year 2002 and re-directed the resources to the core business.

Investment Holding

Year 2002 was a very difficult year for the Resort. The continuing economic malaise experienced in the San Francisco Bay area had been the main factor leading to the Resort's relatively poor financial performance. In addition, the Middle East military action has added to the already weak US economy and has greatly affected the hotel industry. To face keen competition and challenges, the Resort has to reduce room rate and thus lowered its operating margin. The weak US economy will continue to have adverse impact on the Resort.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2002, the Group's current ratio was 0.83. The Group's total bank borrowings have decreased from approximately HK$321 million as reported last year to approximately HK$278 million as at year-end. The financial gearing of the Group, based on the total bank borrowings to the shareholders' equity was maintained at 61% (2001: 65%). No significant seasonality of borrowing requirements exists except during the peak sales period when the Group's trade loans will be comparatively higher.

Capital Structure

During the year ended 31st December, 2002, there were no movements in the Company's share capital. The Group's capital instruments are mainly composed of bank loans and director's support, which are in HK dollars, sterling and US dollars at prevailing market rates.

Charges on Group Assets

As at 31st December, 2002, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$502 million were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the year ended 31st December, 2002. At the moment, there are no major plans for material investments or capital assets.

Management Discussion and Analysis *(Continued)*

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in sterling, US dollars, Renminbi or Hong Kong dollars. As the exchange rate of sterling, US dollars and Renminbi against Hong Kong dollars was relatively stable during the year, the Group was not exposed to material exchange risk.

Contingent Liabilities

As at 31st December, 2002, the Group did not have significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2002, the Group employed approximately 5,100 full time management, administrative and production staff in USA, Europe, PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies or self-enhancement courses.

AUDIT COMMITTEE

The Audit Committee has met with the management to review the year-end financial statements and consider the significant accounting policies, and to discuss with the management about the Group's internal control system.

PROSPECTS

Looking ahead, world economy will remain depressed while competition is expected to be keen under harsh operating environment. We are operating under thin profit margin with fluctuation in raw material prices; orders received are getting smaller while shorter delivery lead-time is generally required.

To face keen market competition and meet challenges ahead, the Group will continue the strategy of investing in new technologies; developing our own product designs; exploring new business opportunities and broadening our customer base. Also, the Group will strengthen and streamline our existing product lines in infant toys, electronic toys and stuffed toys. Furthermore, the Group will continue to focus on reducing operation cost. Our aim is to enhance our competitiveness in terms of productivity, quality and reliability.

We hold on to our mission of maintaining the leading position in the toys industry, and are committed to providing high quality products and services to the total satisfaction of our customers. We believe that once the Middle East Crisis has cleared out, there are hopes of economic recovery. There are still areas of economic uncertainty, but the Group is well prepared to face these challenges.

By the Order of the Board
Kenneth Ting Woo-shou
Managing Director

Hong Kong, 11th April, 2003

Report of the Directors

The directors of the Company (the "Directors") submit herewith their annual report together with the audited financial statements for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in Note 10 on the financial statements.

SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31st December, 2002 are set out on pages 66 and 67 of the annual report.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2002.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31st December, 2002 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 18 to 67 of the annual report.

Movements in reserves during the year are set out in Note 26 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 69 and 70 of the annual report.

Report of the Directors *(Continued)*

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales attributable to the Group's largest suppliers and customers are as follows:

	2002	2001
	%	%
Purchases		
– the largest supplier	**6**	11
– five largest suppliers combined	**23**	32
Sales		
– the largest customer	**6**	19
– five largest customers combined	**21**	32

Except as disclosed under "Directors' Interests in Contracts" below, none of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

DONATIONS

Donations made by the Group during the year amounted to HK$4,000 (2001: HK$146,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 11 on the financial statements .

PROPERTIES

Particulars of the major properties of the Group are shown on page 68 of the annual report.

BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans and overdrafts and other borrowings of the Group at 31st December, 2002 are set out in Notes 22 and 23 on the financial statements.

SHARE CAPITAL

There is no change in the authorised and issued share capital during the year.

DIRECTORS

The Board of Directors during the financial year were:

Executive Directors:
Kenneth Ting Woo-shou
William Li Kai-wan

Non-Executive Directors:
Dennis Ting Hok-shou
Liu Chee-ming
Moses Cheng Mo-chi

In accordance with clause 189(ix) of the Company's Bye-laws, Mr. Moses Cheng Mo-chi shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Chairman

Dr. Dennis Ting Hok-shou, OBE, JP, aged 69, has been the Chairman of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1961.

Dr. Ting has served a number of trade organisations and public committees. At present, he is the President of the Hong Kong Plastics Manufacturers' Association, the Honorary President of the Federation of Hong Kong Industries and the Chairman of the Board of Trustees of Hong Kong Shue Yan College. Dr. Ting is also a member of the Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference.

Dr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is a brother of Mr. Kenneth Ting Woo-shou.

Executive Directors

Mr. Kenneth Ting Woo-shou, JP, aged 60, has been the Managing Director and Chief Executive Officer of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1971 and was appointed the Chairman in 1993. He is responsible for the overall policy and development of the Group.

Mr. Ting currently serves as the Legislative Councilor representing the Federation of Hong Kong Industries of the HKSAR, the Deputy Chairman of the Federation of Hong Kong Industries, the President of the Hong Kong Plastics Manufacturers' Association, the Chairman of the Vocational Training Council - Plastics Training Board and the Honorary President of the Toys Manufacturers' Association of Hong Kong Limited. He is also a Director and Executive Committee Member of the Hong Kong Plastics Technology Centre and a member of the Hong Kong Trade Development Council and The Council of The Hong Kong Polytechnic University.

Report of the Directors *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Executive Directors *(continued)*

He also serves as a member of a number of other trade organisations and public committees such as the Chinese Manufacturers' Association of Hong Kong and the Hong Kong General Chamber of Commerce. He was also a member of the Selection Committee of the Hong Kong Special Administrative Region and an Advisor of Hong Kong District Affairs to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region.

Mr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is a brother of Dr. Dennis Ting Hok-shou.

Mr. William Li Kai-wan, aged 40, is a Fellow Member of the Chartered Association of Certified Accountants and a member of the Hong Kong Society of Accountants. Mr. Li was appointed to the Board in 1994 and is responsible for strategic planning and investments of the Group.

Non-Executive Directors

Mr. Liu Chee-ming, aged 52, has been a non-executive director since June 1998. Mr. Liu is the Managing Director of Platinum Securities Company Limited. Prior to setting up Platinum, Mr. Liu was a member of the Executive Committee of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of Corporate Finance Division between 1992 and 1996.

Mr. Liu was also a Governor of the Singapore International School between 1991 and 1994, and has been a member of the Takeovers Appeal Committee and Takeovers Panel of the Securities and Futures Commission since May 1995.

Mr. Moses Cheng Mo-chi, JP, aged 53, has been a non-executive director since March 1999. Mr. Cheng is a senior partner of Messrs. P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is currently the Chairman of the Hong Kong Institute of Directors and the Committee on the Promotion of Civic Education. He also serves on the boards of many other listed companies as independent non-executive director.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for election at the forthcoming Annual General Meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 31st December, 2002, the directors had the following beneficial interests in the share capital of the Company:

	Number of Ordinary Shares		
	Personal Interests	**Family Interests**	**Corporate Interests**
Kenneth Ting Woo-shou	92,945,385	586,629	244,175,800 (i)
Dennis Ting Hok-shou	9,692,817	275,000	236,969,800 (i)
William Li Kai-wan	–	–	–
Liu Chee Ming	–	–	1,000,000
Moses Cheng Mo-chi	11,000	–	–

Notes:

(i) Included in the corporate interests above were 209,671,000 shares of the Company held by its substantial shareholder, H.C. Ting's Holdings Limited, in which Messrs. Dennis Ting Hok-shou and Kenneth Ting Woo-shou together have a controlling interest.

(ii) Apart from the above, no interests were held or deemed or taken (under the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) to be held by any directors or chief executive of the Company or any of their spouses or children under eighteen years of age in any equity or debt securities of the Company or any of its associated companies (within the meaning of the SDI Ordinance) at 31st December, 2002, nor any rights or warrants to subscribe therefore.

(iii) At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER'S INTEREST

As at 31st December, 2002, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as having an interest of 10% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

The Group has an interest in an associate, Allman Holdings Limited, and an investment, Squaw Creek Associates, in which Mr. Kenneth Ting Woo-shou has beneficial interests.

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which are carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island. Purchases from New Island during the year amounted to HK$5,944,000 which accounted for approximately 6% of the Group's total purchases.

Report of the Directors *(Continued)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS(ES)

During the year and up to the date of this report, Messrs Kenneth Ting Woo-shou and Dennis Ting Hok-shou, Shareholders and Directors of the Company, are considered to have interests in Qualidux Industrial Co. Ltd., a company engaging in toys manufacturing long before the listing of the Company on The Stock Exchange of Hong Kong Limited, which competes or is likely to compete with the business of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As the Board of Directors of the Company is independent from the boards of the abovementioned company and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such company.

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31st December, 2002.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meetings in accordance with clause 189(ix) of the Company's Bye-laws.

AUDITORS

A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board
Kenneth Ting Woo-shou
Managing Director

Hong Kong, 11th April, 2003

Report of the Auditors

KPMG

To the shareholders of Kader Holdings Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 11th April, 2003

Consolidated Income Statement

For the year ended 31st December, 2002

	Note	**2002**	2001 Restated
		HK$'000	*HK$'000*
Turnover	2 & 10	**353,049**	430,637
Other revenue	3(a)	**14,177**	9,740
Other net (expense)/income	3(b)	**(3,788)**	4,643
Changes in inventories of finished goods and work in progress		**13,401**	(7,536)
Cost of purchase of finished goods		**(11,981)**	(4,374)
Raw materials and consumables used		**(95,430)**	(146,214)
Staff costs		**(120,092)**	(119,774)
Depreciation and amortisation expenses		**(23,605)**	(20,024)
Other operating expenses		**(120,074)**	(123,733)
Profit from operations		**5,657**	23,365
Finance costs	4(a)	**(19,959)**	(31,390)
Share of loss of associates		**(13,979)**	(2,035)
Loss from ordinary activities before taxation	4	**(28,281)**	(10,060)
Taxation	6(a)	**(11,375)**	(14,779)
Loss from ordinary activities after taxation		**(39,656)**	(24,839)
Minority interests		**–**	–
Loss attributable to shareholders	7	**(39,656)**	(24,839)
Loss per share			
Basic	8(a)	**(5.96¢)**	(3.73¢)
Diluted	8(b)	**N/A**	N/A

The notes on pages 26 to 67 form part of these financial statements.

Consolidated Balance Sheet

At 31st December, 2002

	Note	2002	2001 Restated
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets			
– Investment properties	11	**407,281**	409,362
– Other property, plant and equipment	11	**113,459**	116,370
		520,740	525,732
Investments in associates	13	**88,817**	94,928
Investment in a jointly controlled entity	14	**–**	–
Other non-current financial assets	15	**88,718**	94,948
Intangible assets	16	**–**	2,496
Deferred taxation	6(c)	**986**	–
		699,261	718,104
Current assets			
Current investments	17	**158**	160
Inventories	18	**158,906**	156,739
Land held for resale	19	**–**	33,005
Properties held for resale	19	**4,672**	–
Tax recoverable	6(b)	**3,191**	1,477
Deferred taxation	6(c)	**2,814**	5,819
Trade and other receivables	20	**72,604**	166,220
Cash and cash equivalents		**9,090**	6,417
		251,435	369,837
Current liabilities			
Bank loans and overdrafts	23	**(219,941)**	(269,845)
Trade and other payables	21	**(67,993)**	(153,340)
Obligations under finance leases	24	**(5,871)**	(496)
Tax payable	6(b)	**(8,137)**	(10,758)
		(301,942)	(434,439)
Net current liabilities		**(50,507)**	(64,602)
Total assets less current liabilities carried forward		**648,754**	653,502

Consolidated Balance Sheet *(Continued)*

At 31st December, 2002

	Note	2002	2001 Restated
		HK$'000	HK$'000
Total assets less current liabilities brought forward		**648,754**	653,502
Non-current liabilities			
Interest-bearing borrowings	22	**(178,941)**	(150,778)
Non interest-bearing amount due to a related company		**–**	(1,560)
Rental deposits		**(2,456)**	(6,025)
Obligations under finance leases	24	**(7,193)**	(905)
Deferred taxation	6(c)	**(70)**	(10)
Accrued employee benefits		**(2,389)**	(1,967)
		(191,049)	(161,245)
Minority interests		**–**	–
NET ASSETS		**457,705**	492,257
CAPITAL AND RESERVES			
Share capital	25	**66,541**	66,541
Reserves	26	**391,164**	425,716
		457,705	492,257

Approved and authorised for issue by the Board of Directors on 11th April, 2003.

Kenneth Ting Woo-shou
Director

William Li Kai-wan
Director

The notes on pages 26 to 67 form part of these financial statements.

Balance Sheet

At 31st December, 2002

	Note	2002	2001 Restated
		HK$'000	*HK$'000*
Non-current assets			
Investments in subsidiaries	12	**571,361**	574,793
Investment in a jointly controlled entity	14	**–**	–
		571,361	574,793
Current assets			
Trade and other receivables	20	**–**	14
Cash and cash equivalents		**21**	35
		21	49
Current liabilities			
Trade and other payables	21	**(330,898)**	(308,433)
Net current liabilities		**(330,877)**	(308,384)
Total assets less current liabilities		**240,484**	266,409
Non-current liabilities			
Amounts due to subsidiaries		**(40,655)**	(39,939)
Accrued employee benefits		**(268)**	(225)
		(40,923)	(40,164)
NET ASSETS		**199,561**	226,245
CAPITAL AND RESERVES			
Share capital	25	**66,541**	66,541
Reserves	26	**133,020**	159,704
		199,561	226,245

Approved and authorised for issue by the Board of Directors on 11th April, 2003.

Kenneth Ting Woo-shou
Director

William Li Kai-wan
Director

The notes on pages 26 to 67 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

	Note	2002	2001 Restated
		HK$'000	HK$'000
Shareholders' equity at 1st January			
As previously reported		**494,224**	507,307
Prior period adjustment arising from changes in accounting policy for employee benefits	9(a)	**(1,967)**	(2,018)
As restated		**492,257**	505,289
Surplus on revaluation of investment properties	26	**719**	12,545
Exchange differences on translation of the financial statements of foreign entities	26	**4,436**	(794)
Net gains not recognised in the income statement		**5,155**	11,751
Net loss for the year:			
As previously reported			(24,890)
Prior period adjustment arising from changes in accounting policy for employee benefits	9(a)		51
Net loss for the year (2001: as restated)		**(39,656)**	(24,839)
Movements in share capital:			
Shares issued under share option scheme	25	**–**	33
Net share premium received	26	**–**	23
		–	56
Movements in capital reserve:			
Write off of goodwill	26	**(51)**	–
Shareholders' equity at 31st December		**457,705**	492,257

The notes on pages 26 to 67 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	Note	2002	2001 Restated
		HK$'000	*HK$'000*
Operating activities			
Loss from ordinary activities before taxation		**(28,281)**	(10,060)
Adjustments for:			
Depreciation of fixed assets		**21,109**	17,528
Impairment loss in respect of fixed assets		**5,982**	–
Amoritsation of intangible assets		**2,496**	2,496
Provision for land held for resale		**–**	2,203
Finance costs		**19,959**	31,390
Dividend income		**(7)**	(9)
Interest income		**(211)**	(880)
Share of loss of associates		**13,979**	2,035
Waiver of amount due to related company		**(4,056)**	–
Loss from partnership		**1,409**	1,337
Net loss on sale of fixed assets		**85**	2
Gain on disposal of listed investments		**–**	(160)
Unrealised loss on listed investments		**96**	184
Unrealised gain on revaluation of investment in Squaw Creek Associates		**(685)**	(3,288)
Revaluation surplus on investment properties		**–**	(3,285)
Write off of goodwill		**(51)**	–
Foreign exchange loss/(gain)		**3,931**	(876)
Operating profit before changes in working capital		**35,755**	38,617
Increase in inventories		**(2,167)**	(4,545)
Decrease/(increase) in debtors and prepayments		**1,438**	(9,224)
Increase in creditors and accrued charges		**5,026**	903
Decrease in rental deposits received		**(395)**	(911)
Increase/(decrease) in accrued employee benefits		**422**	(51)
Cash generated from operations		**40,079**	24,789
Tax paid			
Hong Kong profits tax (paid)/refunded		**(953)**	854
Overseas tax paid		**(12,049)**	(3,439)
Net cash from operating activities		**27,077**	22,204

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31st December, 2002

	Note	2002	2001
			Restated
		HK$'000	HK$'000
Investing activities			
Payment for purchase of fixed assets		**(18,573)**	(20,567)
Proceeds from sales of fixed assets		**178**	8
Proceeds from sales of land held for resale	(b)	**28,333**	–
Payment for purchase of current investments		**–**	(69)
Proceeds on disposal of investments		**–**	316
Interest received		**856**	511
Dividend received		**7**	9
Capital element of distributions from partnership		**7,642**	–
Increase in investment in associate		**(1,950)**	–
Increase in amounts due from associates		**(6,842)**	(123)
Increase in interest in Squaw Creek Associates		**(1,248)**	–
Increase in amount due from partnership		**(982)**	–
Net cash from/(used in) investing activities		**7,421**	(19,915)
Financing activities			
Proceeds from new bank loans		**261,509**	271,778
Repayment of bank loans		**(284,165)**	(283,233)
Net (decrease)/increase in bank overdrafts		**(21,776)**	33,714
Proceeds from finance lease transaction for owned assets		**15,000**	–
Capital element of finance lease rentals paid		**(4,595)**	(166)
Proceeds from new advances from shareholders		**900**	1,000
Increase/(decrease) in amounts due to related companies and related parties		**570**	(1,435)
New loans from a director		**19,000**	–
Proceeds from shares issued under share option scheme		**–**	56
Interest paid		**(17,821)**	(24,843)
Interest element of finance lease rentals paid		**(656)**	(41)
Net cash used in financing activities		**(32,034)**	(3,170)
Net increase/(decrease) in cash and cash equivalents		**2,464**	(881)
Cash and cash equivalents at 1st January		**6,417**	7,377
Effect of foreign exchange rates changes		**209**	(79)
Cash and cash equivalents at 31st December		**9,090**	6,417

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major Non-cash Transaction

During the year ended 31st December, 2002, the Group entered into the following non-cash transactions:

(a) The Group entered into an agreement with an associate such that the amount due to an associate of HK$87,360,000 was settled by offsetting the same amount due from another associate.

(b) Certain land held for resale was sold for cash consideration of RMB30,000,000 and residential units in the PRC initially valued at RMB5,000,000. These residential units are included in "properties held for resale" as at 31st December, 2002.

Notes on the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(j)).

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities *(Continued)*

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with Note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in a jointly controlled entity is stated at cost less impairment losses (see Note 1(j)).

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

(i) for acquisitions before 1st January, 2001, positive goodwill is written off to contributed surplus and is reduced by impairment losses (see Note 1(j)); and

(ii) for acquisitions on or after 1st January, 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(j)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see Note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

Negative goodwill arising on acquisitions of subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

(i) for acquisitions before 1st January, 2001, negative goodwill is credited to capital reserve; and

(ii) for acquisitions on or after 1st January, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/ amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

(i) for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

(ii) for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on the Group reserves is included in the calculation of the profit or loss on disposal.

(f) Other investments in securities

The Group's policy for investments in securities other than investments in subsidiaries, associates and jointly controlled entities is as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in securities *(Continued)*

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Interest in partnership

Interest in partnership is stated at cost less provision, where appropriate, together with profits less losses attributable to the Group.

(h) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

(a) investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;

(b) land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)); and

(c) plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)).

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

(a) when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and

(b) when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Fixed assets *(Continued)*

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

(i) Depreciation and amortisation

(i) No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is provided on the then carrying amount of investment properties with an unexpired lease term of 20 years or less on a straight-line basis over the remaining term of the lease.

(iii) Depreciation is provided on the cost of leasehold land and buildings on a straight-line basis over 50 years or the remaining terms of the respective leases, if shorter.

(iv) Depreciation is provided on the written down value of other fixed assets at the following rates:

Plant and machinery	–	20% to 25% per annum
Furniture and fixtures	–	20% to 25% per annum
Moulds and tools	–	10% to 30% per annum
Vehicles and pleasure craft	–	30% per annum

(v) Amortisation of patents is charged to the income statement on a straight-line basis over its estimated useful life of five years.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

(i) property, plant and equipment (other than properties carried at revalued amounts);

(ii) investments in subsidiaries, associates and joint ventures;

(iii) intangible assets; and

(iv) positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(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 time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill)

(i) Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see Note 1(i)) and impairment losses (see Note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(l) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(s)(ii).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the FIFO cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Land/properties held for resale

Land/properties held for resale are stated at the lower of specific identified cost and estimated net realisable value.

(o) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to the Group's defined contribution retirement plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow economic benefits is remote.

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

(a) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(b) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rate for the year, balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(u) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged 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.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, investment holding and trading.

Turnover represents the invoiced value of goods sold, less returns, to third parties, rental income and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	HK$'000	*HK$'000*
Sale of goods	**324,943**	402,927
Rental income	**28,099**	27,385
Investment income	**7**	325
	353,049	430,637

Notes on the Financial Statements *(Continued)*

3. OTHER REVENUE AND NET (EXPENSE)/INCOME

	2002 *HK$'000*	2001 *HK$'000*
(a) Other revenue		
Interest income	**211**	880
Air conditioning, management and maintenance service charges from tenants	**4,910**	4,310
Subcontracting income	**–**	1,051
Service income	**3,972**	2,304
Waiver of amount due to related company *(Note 30(a))*	**4,056**	–
Others	**1,028**	1,195
	14,177	9,740
(b) Other net (expense)/income		
Unrealised gain on revaluation of investment in Squaw Creek Associates *(Note 15)*	**685**	3,288
Revaluation surplus on investment properties *(Note 11)*	**–**	3,285
Net loss on sale of fixed assets	**(85)**	(2)
Net exchange loss	**(2,883)**	(407)
Unrealised loss on listed investments	**(96)**	(184)
Loss from partnership	**(1,409)**	(1,337)
	(3,788)	4,643

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002	2001
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances repayable within 5 years	**12,668**	19,899
Interest on advances from directors	**3,419**	3,568
Interest on advances from shareholders	**2,353**	3,222
Interest on amounts due to related parties/related companies	**117**	326
Interest on other loans	**746**	4,334
Finance charges on obligations under finance leases	**656**	41
	19,959	31,390
(b) Other items		
Cost of inventories sold	**226,429**	296,747
Amortisation of intangible assets	**2,496**	2,496
Depreciation		
– owned assets	**20,566**	17,320
– assets held under finance leases	**543**	208
Impairment loss in respect of fixed assets	**5,982**	–
Auditors' remuneration	**2,221**	1,676
Operating lease charges		
– rental on land and buildings	**11,750**	11,690
– other rental	**367**	281
Employer's contributions to defined contribution plans, net of forfeited contributions of HK$213,000 (2001: HK$335,000) *(Note 29)*	**2,756**	2,554
Provision for land held for resale	**–**	2,203
Gain on disposal of listed investments	**–**	(160)
Dividend income from listed investments	**(1)**	(1)
Dividend income from unlisted investments	**(6)**	(8)
Gross rental income from investment properties less direct outgoings of HK$3,458,000 (2001: HK$4,124,000)	**(24,641)**	(23,261)

Cost of inventories includes HK$81,196,000 (2001: HK$75,393,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

Notes on the Financial Statements *(Continued)*

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	HK$'000	*HK$'000*
(i) Executive directors		
Fees	**80**	80
Other emoluments		
Salaries and other benefits	**2,503**	2,699
Pension scheme contributions	**137**	115
	2,640	2,814
	2,720	2,894
(ii) Non-executive directors		
Fees	**80**	80
Other emoluments		
Salaries and other benefits	**334**	334
Pension scheme contributions	**33**	33
	367	367
	447	447

The remuneration of the directors is within the following bands:

	2002 Number of directors	2001 Number of directors
HK$Nil to HK$1,000,000	**4**	5
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	–

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

During the year ended 31st December, 2002, the five highest paid individuals included one (2001: one) director, details of whose emoluments are set out in Note 5(a). The emoluments of the remaining of the five highest paid individuals, excluding commissions on sales generated by the employees, are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**3,838**	3,847
Bonus	**300**	109
Pension scheme contribution	**118**	88
	4,256	4,044

The emoluments of the four (2001: four) individuals with the highest emoluments are within the following bands:

	2002	2001
	Number of employees	Number of employees
HK$Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**3**	2

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	2002	2001
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**1,135**	700
Over provision in respect of prior years	**–**	(36)
	1,135	664
Overseas taxation	**7,279**	13,276
Deferred taxation *(Note 6(c))*	**2,074**	839
	10,488	14,779
Share of associates' taxation	**887**	–
	11,375	14,779

Notes on the Financial Statements *(Continued)*

6. TAXATION *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

The provision for Hong Kong profits tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31st December, 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

In 2001, the US Internal Revenue Service completed an audit of a US subsidiary of the Group. As a result of the audit, the Group accrued approximately US$1.3 million (HK$10 million) of withholding taxes on intercompany interest payments. This amount was included in the overseas tax charge for 2001.

The potential deferred tax credit/(charge) for movements in unrecognised net deferred tax assets (Note 6(c)) for the year amounts to:

	2002	2001
	HK$'000	*HK$'000*
Depreciation allowances in excess of related depreciation	**788**	(2,121)
Future benefit of tax losses	**1,211**	(6,145)
	1,999	(8,266)

(b) Tax (recoverable)/payable in the consolidated balance sheet represents:

	2002	2001
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax on the estimated assessable profits for the year	**1,135**	700
Provisional profits tax paid	**(525)**	(272)
	610	428
Overseas tax payable	**4,336**	8,853
	4,946	9,281

Representing:

Tax recoverable	**(3,191)**	(1,477)
Tax payable	**8,137**	10,758
	4,946	9,281

6. TAXATION *(Continued)*

(c) Deferred taxation

	2002	2001
	HK$'000	*HK$'000*
At 1st January	**5,809**	6,642
Exchange adjustments	**(5)**	6
Transferred to income statement *(Note 6(a))*	**(2,074)**	(839)
At 31st December	**3,730**	5,809
Representing:		
Non-current deferred tax recoverable	**986**	–
Current deferred tax recoverable	**2,814**	5,819
Deferred tax payable	**(70)**	(10)
	3,730	5,809

The major components of the recognised net deferred tax assets are:

	2002	2001
	HK$'000	*HK$'000*
Tax effect on timing differences arising from:		
Depreciation allowances in excess of related depreciation	**(70)**	(10)
Provisions and allowances	**1,880**	1,263
Future benefit of tax losses	**936**	1,873
Others	**984**	2,683
	3,730	5,809

At 31st December, 2002, the major components of the Group's unrecognised net deferred tax assets are:

	2002	2001
	HK$'000	*HK$'000*
Depreciation allowances in excess of related depreciation	**(17,698)**	(18,486)
Future benefit of tax losses	**30,004**	28,793
	12,306	10,307

Notes on the Financial Statements *(Continued)*

6. TAXATION *(Continued)*

(c) Deferred taxation *(Continued)*

Surpluses arising on revaluation of investment properties do not constitute a timing difference and tax thereon has therefore not been quantified.

(d) Provision for taxation has not been made in the Company's balance sheet as the Company incurred an adjusted loss for tax purposes during the year.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of HK$26,684,000 (2001 Restated: HK$74,924,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2002	2001 Restated
	HK$'000	*HK$'000*
Amount of consolidated loss attributable to shareholders dealt with in the Company's financial statements	**(26,684)**	(74,924)
Final dividend from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	**–**	13,945
Company's loss for the year *(Note 26)*	**(26,684)**	(60,979)

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$39,656,000 (2001 Restated: HK$24,839,000) and the weighted average of 665,412,000 ordinary shares (2001: 665,254,000 shares) in issue during the year.

(b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have potential ordinary shares outstanding during the year.

The diluted loss per share for 2001 was not presented as the Company's potential ordinary shares outstanding during 2001 had an anti-dilutive effect on the basic loss per share.

9. CHANGES IN ACCOUNTING POLICIES

(a) Employee benefits

Prior to the issuance of Statement of Standard Accounting Practice 34 "employee benefits" by the Hong Kong Society of Accountants, the Group did not provide for the liabilities in respect of its staffs' vested annual leave and long service payment entitlements. SSAP 34 requires that obligations in respect of these entitlements be accrued as soon as services are rendered.

As a result of the new accounting policy, the Group's loss for the year has been increased by HK$423,000 (2001: decreased by HK$51,000) and the net assets as at the year end have been decreased by HK$2,389,000 (2001: HK$1,967,000). The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

(b) Translation of financial statements of foreign enterprises

In prior years, the results of foreign enterprises were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st January, 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the Group translates the results of foreign enterprises at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

10. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Toys and model trains:	The manufacture and sale of plastic, electronic and stuffed toys and model trains.
Property investment:	The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long-term.
Investment holding and trading:	The investment in partnership and trading of listed securities.

Notes on the Financial Statements *(Continued)*

10. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2002	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**324,920**	400,574	**28,099**	27,385	**7**	325	**23**	2,353	**–**	–	**353,049**	430,637
Inter-segment revenue	**–**	–	**687**	687	**–**	–	**–**	–	**(687)**	(687)	**–**	–
Other revenue from external customers	**823**	2,087	**4,918**	4,319	**188**	–	**3,981**	2,454	**–**	–	**9,910**	8,860
Total	**325,743**	402,661	**33,704**	32,391	**195**	325	**4,004**	4,807	**(687)**	(687)	**362,959**	439,497
Segment result	**(1,021)**	4,285	**23,626**	23,673	**(7,418)**	(75)	**(8,247)**	(4,059)	**–**	–	**6,940**	23,824
Unallocated operating income and expenses											**(1,283)**	(459)
Profit from operations											**5,657**	23,365
Finance costs											**(19,959)**	(31,390)
Share of loss of associates					**(13,979)**	(2,035)					**(13,979)**	(2,035)
Taxation											**(11,375)**	(14,779)
Loss attributable to shareholders											**(39,656)**	(24,839)
Depreciation and amortisation for the year	**16,671**	14,325	**2,923**	1,608	**–**	–	**4,011**	4,091	**–**	–	**23,605**	20,024
Impairment loss in respect of fixed assets	**2,303**	–	**–**	–	**–**	–	**3,679**	–	**–**	–	**5,982**	–

10. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property investment		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2002	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated	**2002**	2001 Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**342,246**	330,896	**416,765**	448,452	**88,877**	95,892	**358,779**	423,412	**(351,779)**	(405,113)	**854,888**	893,539
Investments in associates	**–**	–	**–**	–	**88,817**	94,928	**–**	–	**–**	–	**88,817**	94,928
Unallocated assets											**6,991**	99,474
Total assets											**950,696**	1,087,941
Segment liabilities	**366,042**	295,975	**100,402**	189,445	**50,783**	57,555	**319,336**	355,520	**(351,779)**	(405,113)	**484,784**	493,382
Unallocated liabilities											**8,207**	102,302
Total liabilities											**492,991**	595,684
Capital expenditure incurred during the year	**19,831**	22,043										

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and China is a major market for the Group's toys and model trains and property investment, and it is the location of most of its toys and model trains manufacturing. Toys and model trains are also sold to North America. The Group also has investment and investment properties in North America. In Europe and other locations, the major business is sale of toys and model trains.

Notes on the Financial Statements *(Continued)*

10. SEGMENT REPORTING *(Continued)*

Geographical segments *(Continued)*

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong and China		**North America**		**Europe**		**Others**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**83,129**	192,653	**150,894**	145,709	**110,147**	82,696	**8,879**	9,579
Segment assets	**900,933**	1,008,390	**216,559**	209,494	**89,175**	80,768	**–**	–
Capital expenditure incurred during the year	**16,534**	16,752	**2,367**	4,509	**930**	782	**–**	–

11. FIXED ASSETS

The Group

	Land and buildings				Investment properties			
	In Hong Kong	Outside Hong Kong	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1st January 2002	14,131	23,093	401,439	438,663	346,850	62,512	409,362	848,025
Exchange differences	–	1,293	1,569	2,862	–	–	–	2,862
Additions	–	861	18,970	19,831	–	–	–	19,831
Disposals	–	–	(2,344)	(2,344)	–	–	–	(2,344)
Deficit on revaluation *(Note (b) below)*	–	–	–	–	(500)	(1,581)	(2,081)	(2,081)
At 31st December, 2002	14,131	25,247	419,634	459,012	346,350	60,931	407,281	866,293
Representing:								
Cost	14,131	25,247	419,634	459,012	–	–	–	459,012
Valuation – 2002	–	–	–	–	346,350	60,931	407,281	407,281
	14,131	25,247	419,634	459,012	346,350	60,931	407,281	866,293
Accumulated depreciation:								
At 1st January 2002	5,590	7,381	309,322	322,293	–	–	–	322,293
Exchange differences	–	142	908	1,050	–	–	–	1,050
Charge for the year	306	596	17,407	18,309	–	2,800	2,800	21,109
Impairment loss *(Note (c) below)*	–	–	5,982	5,982	–	–	–	5,982
Written back on disposals	–	–	(2,081)	(2,081)	–	–	–	(2,081)
Written back on revaluation *(Note (b) below)*	–	–	–	–	–	(2,800)	(2,800)	(2,800)
At 31st December, 2002	5,896	8,119	331,538	345,553	–	–	–	345,553
Net book value:								
At 31st December, 2002	**8,235**	**17,128**	**88,096**	**113,459**	**346,350**	**60,931**	**407,281**	**520,740**
At 31st December, 2001	8,541	15,712	92,117	116,370	346,850	62,512	409,362	525,732

11. FIXED ASSETS *(Continued)*

(a) Land and buildings comprise:

	2002	2001
	HK$'000	*HK$'000*
At net book value:		
In Hong Kong		
Medium-term leases	**8,235**	8,541
Freehold outside Hong Kong	**17,128**	15,712

(b) Investment properties comprise:

	2002	2001
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	**346,350**	346,850
Outside Hong Kong		
Short-term leases	**11,500**	14,000
Medium-term leases	**34,841**	34,841
Freehold	**14,590**	13,671
	60,931	62,512

The investment properties of the Group at 31st December, 2002 were revalued by Surpass Company Limited and Johnston, Ross & Cheng Limited, external professional valuers, on an open market basis, by either making reference to comparable sales evidence in the market, or otherwise, by capitalising the income derived from the leased properties at an appropriate rate of return.

The net revaluation surplus of HK$719,000 was credited to the investment properties revaluation reserve (Note 26).

11. FIXED ASSETS *(Continued)*

(c) Impairment loss

In 2002, the Group's directors decided to cease the manufacturing of car batteries, thus the Group assessed the recoverable amount of a number of specialised machines dedicated to that product. The Group has also assessed the recoverable amount of other machines. Based on this assessment, the carrying amount of those machines was written down by HK$5,982,000 (included in "Other operating expenses"). Further, in connection with the Group's decision to cease the manufacturing of car batteries, during the year a related company agreed to waive an amount of HK$4,056,000 in connection with the acquisition of a battery patent. This patent was fully amortised at the year end date (Note 16).

(d) Equipment comprises plant and machinery, furniture and fixtures, moulds and tools, vehicles and pleasure craft.

(e) Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in Note 23.

(f) The Group leases production plant and machinery under finance leases expiring in three years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. The net book value of fixed assets included an amount of HK$2,444,000 (2001: HK$1,644,000) in respect of assets held under finance leases.

(g) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amounts of the investment properties of the Group held for use in operating leases were HK$407,281,000 (2001: HK$409,362,000).

The Group's total future lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Within 1 year	**17,624**	21,800
After 1 year but within 5 years	**10,146**	13,292
	27,770	35,092

Notes on the Financial Statements *(Continued)*

12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**244,819**	244,819
Add: Amounts due from subsidiaries	**583,780**	567,837
Less: Impairment losses	**(257,238)**	(237,863)
	571,361	574,793

Details of the major subsidiaries at 31st December, 2002 which principally affect the results or assets of the Group are shown on pages 66 and 67.

13. INVESTMENTS IN ASSOCIATES

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Share of net assets	**22,482**	35,435
Amounts due from associates	**66,335**	59,493
	88,817	94,928

Details of the major associates at 31st December, 2002, which principally affect the results or assets of the Group, are as follows:

Name of associates	Form of business structure	Place of incorporation and operation	Proportion of ownership interest held by the Company	Proportion of ownership interest held by Subsidiary	Principal activities
Allman Holdings Limited	Incorporated	British Virgin Islands	–	50%	Investment holding
Melville Street Trust Company Limited	Incorporated	Canada	–	27.3%	Property investment
Mango Designs, LLC	Incorporated	USA	–	30%	Marketing and distribution

13. INVESTMENTS IN ASSOCIATES *(Continued)*

In addition to the Group's interest in Squaw Creek Associates ("Squaw Creek") held under investments (see Note 15), Allman Holdings Limited ("Allman") has an interest in this entity. Similar to the Group, Allman's interest in Squaw Creek has been stated at market value in equity accounting for Allman's results. The valuation of the resort owned by Squaw Creek was performed by an independent firm of professional valuers using an income capitalisation approach at 31st December, 2002 and the resultant unrealised loss on revaluation attributable to Allman was HK$13,444,000 (2001: HK$2,569,000). Of this loss attributable to Allman, the Group's 50% share, amounting to HK$6,722,000 (2001: HK$1,285,000), has been reflected in the share of loss of associates in the Group's consolidated income statement.

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	The Group		**The Company**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**–**	–		
Unlisted shares, at cost			**68,151**	68,151
Less: Impairment loss			**(68,151)**	(68,151)
	–	–	**–**	–

Details of the Group's investment in a jointly controlled entity are as follows:

Name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by Subsidiary	Principal activity
Jinlong Kader Electric Appliance Company Limited	Incorporated	China	Registered capital US$20,000,000	50%	–	Manufacture of electrical fans

Notes on the Financial Statements *(Continued)*

15. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Interest in partnership	**10,998**	19,067
Investment securities		
Unlisted equity securities	**100**	100
Other securities – at market value		
Interest in Squaw Creek Associates	**77,620**	75,687
Equity securities listed in Hong Kong	**–**	94
	77,620	75,781
	88,718	94,948

Squaw Creek Associates ("Squaw Creek") owns and operates a resort in USA. The valuation of the resort owned by Squaw Creek was performed by an independent firm of professional valuers using an income capitalisation approach at 31st December, 2002. The related share of the unrealised gain on revaluation attributable to the Group of HK$685,000 (2001: HK$3,288,000) has been reflected in the Group's consolidated income statement for the year. A further interest in Squaw Creek is also held via an associate and details are given in Note 13.

16. INTANGIBLE ASSETS

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Patents acquired		
Cost at 1st January and 31st December	**12,464**	12,464
Accumulated amortisation		
At 1st January	**9,968**	7,472
Charge for the year	**2,496**	2,496
At 31st December	**12,464**	9,968
Net book value	**–**	2,496

17. CURRENT INVESTMENTS

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Trading securities – at market value		
Equity securities listed in Hong Kong	**158**	160

18. INVENTORIES

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**47,583**	58,817
Work in progress	**6,917**	5,855
Finished goods	**104,406**	92,067
	158,906	156,739

The amount of inventories (included above) carried at net realisable value is HK$937,000 (2001: HK$6,215,000). In addition, finished goods inventories are stated net of a general provision of HK$2,180,000 (2001: HK$1,560,000) made in order to state those inventories at the lower of cost and estimated net realisable value.

Finished goods inventories of HK$52,265,000 (2001: HK$74,489,000) were pledged to banks to secure banking facilities granted to the Group. See Note 23.

19. LAND/PROPERTIES HELD FOR RESALE

During 2002, certain land held for resale was sold for cash consideration of RMB30,000,000 and residential units in the PRC initially valued at RMB5,000,000. These residential units are included in "properties held for resale" as at 31st December, 2002. There was no gain or loss on the sale.

Notes on the Financial Statements *(Continued)*

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Debtors and prepayments	**72,304**	73,742	**–**	14
Amount due from an associate	**–**	92,178	**–**	–
Amount due from a related party	**300**	300	**–**	–
	72,604	166,220	**–**	14

The amount due from an associate was interest bearing at prime plus 1% and has been settled during the year.

The amount due from a related party is unsecured, interest free and has no fixed repayment terms.

All trade and other receivables are expected to be recovered within one year.

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

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**55,741**	51,907
1 to 3 months overdue	**7,147**	5,435
More than 3 months overdue but less than 12 months overdue	**922**	858
More than 12 months overdue	**490**	1,053
	64,300	59,253

Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount due to an associate	**–**	91,533	**–**	–
Amounts due to directors	**11,392**	8,097	**–**	–
Amounts due to shareholders	**1,648**	3,672	**–**	–
Amounts due to related companies	**799**	3,789	**–**	–
Amounts due to related parties	**2,130**	2,130	**–**	–
Creditors and accrued charges	**46,603**	41,872	**580**	582
Rental deposits	**5,421**	2,247	**–**	–
Amounts due to subsidiaries	**–**	–	**330,318**	307,851
	67,993	153,340	**330,898**	308,433

The amount due to an associate was interest bearing at prime and has been settled during the year.

Amounts due to directors, amounts due to shareholders (2001: HK$2,672,000) represent interest on advances from them included under non-current interest-bearing borrowings (Note 22) and are repayable semi-annually or monthly. The remaining HK$1,000,000 of amount due to shareholders in 2001, representing advances from shareholders, was unsecured, bore interest at 7% per annum and had no fixed term of repayment.

Amounts due to related companies and related parties are unsecured, interest free and have no fixed term of repayments.

All trade and other payables are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Due within 1 month or on demand	**8,718**	4,204
Due after 1 month but within 3 months	**3,458**	6,259
Due after 3 months but within 6 months	**735**	273
Due after 6 months but within 12 months	**64**	82
	12,975	10,818

Notes on the Financial Statements *(Continued)*

22. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Bank loans (Note 23)	**57,875**	51,182
Advances from directors	**68,554**	49,554
Advances from shareholders	**47,206**	45,306
Amounts due to related companies	**5,155**	4,585
Amount due to a related party	**151**	151
	178,941	150,778

Amounts due to directors, shareholders, related companies and related party are unsecured, interest bearing at 3% or prime less 0.5% to prime plus 2% and repayable after 31st December, 2003.

23. BANK LOANS AND OVERDRAFTS

At 31st December, 2002, bank loans and overdrafts were repayable as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Within 1 year or on demand	**219,941**	269,845
After 1 year but within 2 years	**18,440**	16,283
After 2 years but within 5 years	**33,858**	24,907
After 5 years	**5,577**	9,992
	57,875	51,182
	277,816	321,027

23. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December, 2002, bank loans and overdrafts were secured as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Bank overdrafts		
– secured	**36,086**	52,509
– unsecured	**17,557**	22,698
	53,643	75,207
Bank loans		
– secured	**197,459**	204,857
– unsecured	**26,714**	40,963
	224,173	245,820
	277,816	321,027

At 31st December, 2002, certain investment properties, leasehold land and buildings and other assets of the Group amounting to HK$502,108,000 (2001: HK$686,077,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details are as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Investment properties	**395,781**	395,362
Land and buildings	**25,363**	24,253
Inventories	**52,265**	74,489
Other assets	**28,699**	191,973
	502,108	686,077

Notes on the Financial Statements *(Continued)*

24. OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2002, the Group had obligations under finance leases repayable as follows:

	2002			2001		
	Present value of minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	**5,871**	**502**	**6,373**	496	101	597
After 1 year but within 2 years	**6,022**	**211**	**6,233**	501	57	558
After 2 years but within 5 years	**1,171**	**12**	**1,183**	404	14	418
	7,193	**223**	**7,416**	905	71	976
	13,064	**725**	**13,789**	1,401	172	1,573

25. SHARE CAPITAL

	2002		2001	
	Number of shares *('000)*	***HK$'000***	Number of shares *('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1st January	**665,412**	**66,541**	665,080	66,508
Shares issued under share option scheme	**–**	**–**	332	33
At 31st December	**665,412**	**66,541**	665,412	66,541

In 2001, 331,478 ordinary shares of HK$0.10 each were issued as a result of the exercise of share options granted under the Company's Employee Share Option Scheme for an aggregate cash consideration of HK$56,000. Such share options were granted on 1st January, 2000 with exercise price of HK$0.17 and the exercisable period was from 1st July, 2000 to 30th June, 2001.

The Company's Employee Share Option Scheme expired on 29th June, 2000.

26. RESERVES

	The Group		The Company	
	2002	2001	**2002**	2001
		Restated		Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investment properties revaluation reserve				
At 1st January	**12,545**	–	**–**	–
Surplus arising on revaluation *(Note 11(b))*	**719**	12,545	**–**	–
At 31st December	**13,264**	12,545	**–**	–
Exchange reserves				
At 1st January	**(4,202)**	(3,408)	**–**	–
Exchange translation differences on translation of financial statements of overseas subsidiaries	**4,436**	(794)	**–**	–
At 31st December	**234**	(4,202)	**–**	–
Contributed surplus				
At 1st January and 31st December	**169,994**	169,994	**175,594**	175,594
Capital reserve				
At 1st January	**10,867**	10,867	**9,347**	9,347
Write off of goodwill	**(51)**	–	**–**	–
At 31st December	**10,816**	10,867	**9,347**	9,347
Share premium				
At 1st January	**109,942**	109,919	**109,942**	109,919
Arising on issue of shares	**–**	23	–	23
At 31st December	**109,942**	109,942	**109,942**	109,942
Revenue reserves				
At 1st January				
– as previously reported	**128,537**	153,427	**(134,954)**	(74,016)
– prior period adjustment in respect of employee benefits *(Note 9(a))*	**(1,967)**	(2,018)	**(225)**	(184)
– as restated	**126,570**	151,409	**(135,179)**	(74,200)
Loss for the year (2001: restated)	**(39,656)**	(24,839)	**(26,684)**	(60,979)
At 31st December	**86,914**	126,570	**(161,863)**	(135,179)
Total reserves at 31st December	**391,164**	425,716	**133,020**	159,704

26. RESERVES *(Continued)*

Exchange reserves and revenue reserves of the Group are retained as follows:

	The Group			
	Exchange reserves		**Revenue reserves**	
	2002	2001	**2002**	2001 Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By the Company and its subsidiaries	**(716)**	(5,189)	**144,829**	169,619
By associates	**950**	987	**19,528**	34,394
By a jointly controlled entity	**–**	–	**(77,443)**	(77,443)
Total at 31st December	**234**	(4,202)	**86,914**	126,570

Apart from the above, all other reserves of the Group are retained by the Company and its subsidiaries.

The capital reserve, contributed surplus, exchange reserves and investment properties revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/discount arising on subsidiaries, associates and jointly controlled entities, foreign currency translation and the revaluation of investment properties *(Note 1)*.

The Company's reserves available for distribution to shareholders at 31st December, 2002 are as follows:

	The Company	
	2002	2001 Restated
	HK$'000	*HK$'000*
Contributed surplus	**175,594**	175,594
Revenue reserves	**(161,863)**	(135,179)
	13,731	40,415

27. COMMITMENTS

(a) Capital commitments outstanding at 31st December, 2002 not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted for	**449**	–

At 31st December, 2002 and 2001, the Company did not have any capital commitments.

(b) At 31st December, 2002, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		**Others**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**4,298**	10,740	**212**	185
After 1 year but within 5 years	**4,756**	6,287	**423**	100
After 5 years	**296**	1,186	**–**	–
	9,350	18,213	**635**	285

At 31st December, 2002 and 2001, the Company did not have any commitments under operating leases.

The Group leases a number of properties and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

Notes on the Financial Statements *(Continued)*

28. CONTINGENT LIABILITIES

At 31st December, 2002, there were contingent liabilities in respect of the following:

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$416,898,000 (2001: HK$367,640,000).

(b) The Company has issued letters of support in connection with some other wholly owned subsidiaries with deficiencies in shareholders' funds of HK$179,509,000 (2001: HK$166,448,000) as at 31st December, 2002. The company has also issued guarantees to certain wholly owned subsidiaries amounted to HK$23,838,000 in 2001. There were no similar guarantees in 2002.

(c) In 2001, bills discounted with banks amounted to HK$1,094,000 for the Group.

29. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group has a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1st December, 2001, all Hong Kong based employees are also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme has been modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions are varied with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% to 90% after completion of 5 to 9 years' service.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer. At the balance sheet date, the total amount of forfeited contributions which are available to reduce the contributions payable in the future years was HK$Nil (2001: HK$25,000).

Employees in the People's Republic of China are covered by a retirement insurance policy.

Employees in United States of America are covered by a profit sharing plan under Section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

30. MATERIAL RELATED PARTY TRANSACTIONS

(a) In 1998, the Group agreed to pay HK$12,464,000 to a company controlled by a director and shareholders of the Company for obtaining the licence to use certain technologies and know-how for the manufacture and sale of car battery products according to an agreement signed in 1996. As at 31st December, 2002, this related company waived the outstanding balance of HK$4,056,000 due by the Group. Thus, the amount due to this related company at 31st December, 2002 was HK$Nil (2001: HK$4,056,000) and income from waiver of amount due to related company of HK$4,056,000 was taken up by the Group during the year.

(b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK$5,944,000 (2001: HK$6,167,000) during the year. The amount due to the supplier at the year end amounted to HK$224,000 (2001: HK$209,000).

(c) In 2001, certain directors of the Company have entered into a joint and several personal guarantee for not less than HK$39,000,000 in favour of a bank for loans granted to the Company. No such guarantee existed at 31st December, 2002.

(d) During the year, the Group had net interests in both an associate and certain investments amounting to HK$86,607,000 (2001: HK$93,451,000) and HK$77,620,000 (2001: HK$75,687,000) respectively in which a director of the Company has beneficial interests.

(e) During the year, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in Notes 4, 21 and 22 on the financial statements.

(f) During the year, the Group has provided funding to a related party. Details of the terms of the advances and the balance outstanding are disclosed in Note 20 on the financial statements.

(g) The Group has provided/obtained funding to/from associates. Details of the balances outstanding are disclosed in Notes 13, 20 and 21 on the financial statements.

31. COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of requirements of Statement of Standard Accounting Practice 15 (revised 2001) “Cash flow statements”. As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year’s presentation.

Certain comparative figures have also been adjusted as a result of changes in accounting policy for employee benefits, details of which are set out in Note 9(a).

Principal Subsidiaries

At 31st December, 2002

Name	Place/ country of incorporation	Place/ country of operation	Issued and fully paid up share capital (all being ordinary shares except otherwise stated)	Principal activities	Proportion of ownership interest held by Company	Subsidiaries
Bachmann Asia Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Agent for sale of toys	100%	–
Bachmann (China) Limited	Hong Kong	China	10,000 shares of HK$1each	Marketing and distribution	–	100%
Bachmann Europe Plc (formerly Bachmann Industries Europe Limited)	UK	UK	2,050,000 shares of £1 each	Marketing and distribution	100%	–
*Bachmann Industries, Inc.	USA	USA	4,010,100 shares of US$1 each	Marketing and distribution	–	100%
*Bachmann International Trading (Shanghai) Company Limited *(Note)*	China	China	Registered capital US$500,000	Marketing and distribution	–	100%
Bridge Duke Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Bridge Shine Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
*Connco Assets Limited Islands	British Virgin Islands	British Virgin Islands	30,000 shares of US$1 each	Investment holding	–	100%
Deltahill Company Limited	Hong Kong	Hong Kong	100 shares of HK$1 each 1,001,000 non-voting deferred shares of HK$1 each	Property investment	–	100%
*Dongguan Kader Electronics Company Limited *(Note)*	China	China	Registered capital HK$10,000,000	Manufacture of toys	–	70%
*Emission Test Cell Company Limited	Hong Kong	Hong Kong	4,000 shares of HK$1 each	Car testing services	–	86%
Express Tech Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Extend Charm Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
*GHI, Inc.	USA	USA	1,000 shares of US$1 each	Investment holding	–	100%

Principal Subsidiaries *(Continued)*

At 31st December, 2002

Name	Place/ country of incorporation	Place/ country of operation	Issued and fully paid up share capital (all being ordinary shares except otherwise stated)	Principal activities	Proportion of ownership interest held by Company	Subsidiaries
Grafar Limited	UK	UK	5,000 shares of £1 each	Manufacture and sale of model trains	–	100%
Graham Farish Limited	UK	UK	4,439 shares of £1 each	Investment holding	–	100%
Great Hope Investments Limited	British Virgin Islands	British Virgin Islands	1 share of US$1 each	Investment holding	100%	–
Intertrans 148 Limited	UK	UK	2 shares of £1 each	Development of model trains	–	100%
Joy Gain Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Kader Enterprises Limited	Hong Kong	China	1,500,000 shares of HK$10 each	Property investment	–	100%
Kader Industrial Company Limited	Hong Kong	Hong Kong	412,532,000 shares of HK$0.5 each	Manufacture of toys and property investment	100%	–
Nice Cheer Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Noble Fine Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Starrex Investment Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Investment holding	–	100%
Sun Marsh Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
*Tentdraft Holdings Limited	British Virgin Islands	British Virgin Islands	25,000 shares of US$1 each	Property investment	–	100%
Tinco Toys Company Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Investment holding and manufacture of soft toys	–	100%
Top Honest Properties Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%

Note: The form of business structure of Bachmann International Trading (Shanghai) Company Limited and Dongguan Kader Electronics Company Limited is wholly foreign owned enterprise and cooperative joint venture respectively.

* *Companies not audited by the primary auditors. The total net assets and turnover of these companies constitute approximately 15.7% and 35.6% respectively of the Group totals.*

Major Properties

Details of the major properties of the Group are as follows:

	Location	Existing use	Term of lease
1.	The whole building 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.	Industrial	Medium-term
2.	Huajian Standard Industrial Block No.1, Xinghua Road, CMSN Shekou Industrial Zone, Shekou, Nan Shan District, Shenzhen, Guangdong, The People's Republic of China.	Industrial	Short-term
3.	Suite Nos 403, 404, 503, 704, 1905, 2005, 2006, 2206, 2804, 3004 and 3101, No. 1238 Melville Street, Vancouver, B.C., Canada.	Residential	Freehold
4.	Workshop No. A15 on 9th floor, Block A, Tonic Industrial Centre, 26 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.	Industrial	Medium-term
5.	Whole of Level 16 of China Merchants Tower, 161 Lujiazui Dong Lu, Lujiazui Finance & Trade Zone, Pudong, Shanghai, The People's Republic of China.	Commercial	Medium-term
6.	Flat B on first floor, No. 53 Caperidge Drive, Crestmont Villa, Peninsula Village, Discovery Bay City, Lantau Island, Hong Kong.	Residential	Medium-term
7.	House 29,31 & 32 Bauhinia Court, New Centruy Lijiang Villas, Phase II, Guanlong Road, Jingshan Section Chashan Town, Dongguan City Guangdong Province, The People's Republic of China.	Residential	Medium-term

Five Year Summary

	1998	1999	2000	2001	2002
				Restated	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
CONSOLIDATED INCOME STATEMENT					
Turnover	409,279	346,739	319,966	430,637	**353,049**
Profit from operations *(Note 1)*	60,272	29,847	1,781	23,365	**5,657**
Finance costs	(37,350)	(30,091)	(34,611)	(31,390)	**(19,959)**
Share of (loss)/profit of associates	(1,517)	(3,879)	39,627	(2,035)	**(13,979)**
Profit/(loss) from ordinary activities before taxation	21,405	(4,123)	6,797	(10,060)	**(28,281)**
Taxation	(6,885)	(2,610)	(1,765)	(14,779)	**(11,375)**
Profit/(loss) from ordinary activities after taxation	14,520	(6,733)	5,032	(24,839)	**(39,656)**
Minority interests	(592)	300	–	–	**–**
Profit/(loss) attributable to shareholders	13,928	(6,433)	5,032	(24,839)	**(39,656)**
EARNINGS/(LOSS) PER SHARE	2.2¢	(1.0¢)	0.76¢	(3.73¢)	**(5.96¢)**
DIVIDEND PER SHARE	Nil	Nil	Nil	Nil	**Nil**

Five Year Summary *(Continued)*

	1998	1999	2000	2001	2002
				Restated	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
CONSOLIDATED BALANCE SHEET					
Fixed assets	542,522	509,982	505,988	525,732	**520,740**
Interest in associates	150,381	146,160	186,329	94,928	**88,817**
Interest in a jointly controlled entity	–	–	–	–	**–**
Other non-current financial assets	78,287	66,561	93,179	94,948	**88,718**
Other non-current assets	9,984	7,675	4,992	2,496	**986**
Net current assets/(liabilities)	7,778	454	(18,078)	(64,602)	**(50,507)**
Total assets less current liabilities	788,952	730,832	772,410	653,502	**648,754**
Non-current liabilities	(226,371)	(213,164)	(265,103)	(161,245)	**(191,049)**
Minority interests	(350)	–	–	–	**–**
	562,231	517,668	507,307	492,257	**457,705**
Share capital	63,537	65,721	66,508	66,541	**66,541**
Reserves	498,694	451,947	440,799	425,716	**391,164**
	562,231	517,668	507,307	492,257	**457,705**

Note:

1. In order to comply with Hong Kong Statement of Standard Accounting Practice No. 34 "Employee Benefits", the Group adopted new accounting policies for staffs' vested annual leave and long service payment entitlements in 2002. Figures for the year 2001 have been adjusted, however it is not practicable to restate earlier years for comparison purposes.

2. Pursuant to the revised (December 2001) Hong Kong Statement of Standard Accounting Practice No. 11 "Foreign currency translation", the Group changed its accounting policy for translation of the results of foreign enterprises in 2002. Figures for the years from 1998 to 2001 have not been adjusted for comparison purposes as the effect of this change in accounting policy is not material.