Notes on the Financial Statements

(Expressed in Hong Kong dollars)

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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"). 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 land use rights and buildings as set out in note 1(f).

(c) Group reorganisation and basis of consolidation

Pursuant to a group reorganisation (the "Group Reorganisation"), which was completed on 31 December 2001 to rationalise the group structure in preparation of a listing of the company's shares on the SEHK, the company became the holding company of the companies now comprising the group by acquiring the entire share capital of C & H Toy of America, Inc. and J.Y. Toys Co., Limited from the ultimate holding company. These consolidated financial statements have been prepared using the acquisition method of accounting and include the financial statements of the company and all of its subsidiaries made up to 31 December each year. The results of subsidiaries acquired during the period are included in the consolidated income statement from their respective dates of acquisition.

(d) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and controlled enterprises (continued)

In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), 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 company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(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.

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(i)).

Negative goodwill arising on acquisitions of subsidiaries 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. 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, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Fixed assets

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

– land use rights and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 1(h)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

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

(ii) Changes arising on the revaluation of land use rights and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

– 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 the reserve in respect of that same asset immediately prior to the revaluation; and

– 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 that same asset had previously been charged to the income statement.

(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 land use rights and buildings, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(g) 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. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Depreciation

Depreciation or amortisation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

– Land use rights are amortised on a straight-line basis over the period of the grant;

– buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 20 years from the date of completion, and the remaining period of the land use rights; and

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the period of the lease
Plant and machinery	5 to 10 years
Office equipment, furniture and fixtures	5 to 10 years
Motor vehicles	3 to 10 years

(i) 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:

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

– investments in subsidiaries (except for those accounted for at fair value under note 1(d)); and

– positive goodwill.

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 asset. 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 asset that generates cash inflows independently (i.e. a cash-generating unit).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(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.

(j) Inventories

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

Cost is calculated using the weighted average 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.

(k) Cash equivalents

For the purposes of presentation in the balance sheets, cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and maturing within three months of the balance sheet dates.

For the purposes of the cash flow statement, cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less bank overdrafts and advances from banks repayable within three months from the date of the advance.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material 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.

(m) 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.

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 of economic benefits is remote.

(n) 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) Commission income

Commission income on sales referred to manufacturers is recognised when the goods are delivered by the manufacturers to the ultimate customers.

(iii) 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)

(o) 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 the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

With respect to subsidiaries outside Hong Kong, whose operations are dependent on the economic circumstances of the group's reporting currency, the income and expenses of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates whereas the monetary assets and liabilities of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

(p) Retirement costs

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to the income statement when incurred.

(q) 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) 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.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

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 year 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.

2 TURNOVER

The principal activities of the group are the design, development, manufacturing and sales of plush stuffed toys as well as steel and plastic toys.

Turnover represents the net invoiced value of plush stuffed toys sold, excludes value added tax and is net of any trade discounts. The sales of steel and plastic toys are undertaken by J.Y. Toys Co., Limited which was acquired by the group on 31 December 2001. Accordingly, its turnover of $74,844,000 has not been included in the consolidated income statement for the year ended 31 December 2001 (2000: $85,848,000).

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3 OTHER REVENUE AND NET LOSS

	2001 $'000	2000 $'000
Other revenue		
Interest income from bank deposits	**3,320**	2,194
Sundry income	**5,223**	3,273
	8,543	5,467
Other net loss		
Net loss on sale of fixed assets	**(203)**	–
Net exchange loss	**(5,729)**	(5,202)
	(5,932)	(5,202)

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		2001 $'000	2000 $'000
(a)	Finance cost:		
	Interest on bank advances and other borrowings wholly repayable within five years	**230**	155
(b)	Other items:		
	Auditors' remuneration	**2,000**	1,416
	Cost of inventories #	**575,702**	600,760
	Staff costs (including retirement costs of $10,372,000 (2000: $6,968,000)) #	**152,456**	117,938
	Depreciation #	**12,425**	7,905
	Operating lease charges: minimum lease payments # – property rentals	**19,022**	15,519
	Negative goodwill recognised as income upon acquisition of subsidiary	**(3,048)**	(4,872)
	Amortisation of negative goodwill	**(1,544)**	–
	Provision for bad debts	**3,676**	6,977
	Commission expenses	**8,884**	17,014

\# Cost of inventories includes $158,037,000 (2000: $126,891,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

(Expressed in Hong Kong dollars)

5 TAXATION

(a) Taxation in the consolidated income statement represents:

	2001	2000
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**4,900**	2,600
Under-provision in respect of prior years	**1,012**	535
	5,912	3,135
Deferred taxation (note 22(a))	**191**	446
	6,103	3,581

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 31 December 2001.

In accordance with the relevant regulations and the Enterprises Income Tax Law applicable in the PRC, the PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from its first profit making year and thereafter subject to Enterprise Income Tax at 50% of the standard tax rate for the following three years. As at 31 December 2001, all of the PRC subsidiaries are exempted from Enterprise Income Tax.

(b) Taxation in the balance sheets represents:

	The group		**The company**	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Provision for Hong Kong Profits Tax for the year	**4,900**	2,600	**4,900**	2,600
Provisional Profits Tax paid	**–**	(675)	**–**	(675)
	4,900	1,925	**4,900**	1,925
Balance of Profits Tax provision relating to prior years	**8,488**	12,045	**8,488**	12,045
Taxation recoverable	**(121)**	–	**–**	–
Less: Tax Reserve Certificates purchased under the order of the Commissioner of Inland Revenue (note (i))	**–**	(11,720)	**–**	(11,720)
	13,267	2,250	**13,388**	2,250

(Expressed in Hong Kong dollars)

5 TAXATION (continued)

(b) Taxation in the balance sheets represents (continued):

Notes:

(i) As at 31 December 2000, Tax Reserve Certificates totalling $11,720,000 were purchased by the company pending the resolution of certain enquiries raised by the Hong Kong Inland Revenue Department ("IRD") relating to the years of assessment 1992/93 to 1999/2000. In March 2001, the IRD agreed the assessable profits/adjusted losses of the company for the years of assessment 1992/93 to 1997/98 and the Tax Reserve Certificates were used to settle the tax liabilities in respect of the above years of assessment.

(ii) As at 31 December 2001, the assessable profits of the company for the years of assessment 1998/99 to date have still not been agreed with the IRD. The company is in the process of collating further information and documents to support its Profits Tax returns. The directors of the company have made provisions which they consider to be adequate after taking into account the nature of the enquiries raised by the IRD and the bases adopted in calculating the company's assessable profits in the previous years.

Subsequent to 31 December 2001, the company purchased Tax Reserve Certificates in the aggregate amount of $8,488,000 under the order of the Commissioner of Inland Revenue.

6 DIRECTORS' REMUNERATION

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

	2001	2000
	$'000	$'000
Fees	**40**	–
Salaries and other emoluments	**5,423**	5,867
Retirement scheme contributions	**523**	123
	5,986	5,990

Included in the directors' remuneration were fees of $40,000 (2000: $Nil) paid to the independent non-executive directors during the year.

6 DIRECTORS' REMUNERATION (continued)

The remuneration of the directors is within the following bands:

	2001 Number of directors	2000 Number of directors
$		
Nil – 1,000,000	**4**	1
1,000,001 – 1,500,000	**–**	1
1,500,001 – 2,000,000	**–**	1
2,000,001 – 2,500,000	**1**	–
2,500,001 – 3,000,000	**1**	1

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2000: three) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of other two (2000: two) individuals are as follows:

	2001 $'000	2000 $'000
Salaries and other emoluments	**1,849**	2,805
Retirement scheme contributions	**93**	13
	1,942	2,818

The emoluments of the two (2000: two) individuals with the highest emoluments are within the following bands:

	2001 Number of individuals	2000 Number of individuals
$		
Nil – 1,000,000	**1**	–
1,000,001 – 1,500,000	**1**	1
1,500,001 – 2,000,000	**–**	1

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $73,730,000 (2000: $42,051,000) which has been dealt with in the financial statements of the company.

(Expressed in Hong Kong dollars)

9 DIVIDENDS

Dividends attributable to the year

	2001 $'000	2000 $'000
1,400,000 shares of US$1 each (note (i))		
Interim dividend declared and paid of $5.507 per share (2000: $Nil)	**7,710**	–
Special dividend declared and paid of $16.586 per share (2000: $Nil)	**23,220**	–
650,000,000 shares of US$0.01 each (note (ii))		
Final dividend proposed after the balance sheet date of $0.048 per share (2000: $Nil)	**31,200**	–
	62,130	–

Notes:

(i) The interim and special dividends were paid to the then shareholders of the company prior to the subdivision of the company's shares in December 2001 and listing of the company's shares on the SEHK in February 2002.

(ii) The final dividend proposed after the balance sheet date is based on the number of shares outstanding as at the date the financial statements are approved by the directors and has not been recognised as a liability at the balance sheet date.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $98,854,000 (2000: $76,438,000) and the 487,500,000 ordinary shares (2000: weighted average of 385,611,546 shares) in issue during the year after adjusting for the subdivision of shares in December 2001 and the capitalisation issue of shares subsequent to the year end, as disclosed in note 23.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the year and therefore diluted earnings per share are not presented.

11 CHANGE IN ACCOUNTING POLICY

Land and buildings held for own use

In prior years, land and buildings held for own use were stated at cost less accumulated depreciation. With effect from 1 November 2001, the group adopted an accounting policy of stating all land and buildings held for own use at revalued amounts as set out in note 1(f), following the listing requirement in respect of property valuation upon the listing the shares of the company on the SEHK.

As a result of the new accounting policy, the group's profit for the year has been decreased by $2,100 and the net assets as at the year end have been increased by $701,000. The new accounting policy has been adopted prospectively, as the financial impact on the financial statements for the previous year is not material.

(Expressed in Hong Kong dollars)

12 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 two main business segments:

– manufacture and sale of plush stuffed toys

– manufacture and sale of steel and plastic toys

	Plush stuffed toys		Steel and plastic toys *(Note)*		Unallocated		Consolidated	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000
Revenue from external customers	**756,049**	753,437	**–**	–	**–**	–	**756,049**	753,437
Other revenue from external customers	**5,223**	3,273	**–**	–	**3,320**	2,194	**8,543**	5,467
Total	**761,272**	756,710	**–**	–	**3,320**	2,194	**764,592**	758,904
Segment result	**105,187**	80,174	**–**	–	**–**	–	**105,187**	80,174
Contribution from operations							**105,187**	80,174
Finance cost							**(230)**	(155)
Taxation							**(6,103)**	(3,581)
Profit attributable to shareholders							**98,854**	76,438

Note: Revenue and segment result attributable to the steel and plastic toys segment have not been included as J. Y. Toys Co., Limited, the subsidiary which is engaged in the manufacture and sale of steel and plastic toys, was acquired by the company on 31 December 2001.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (continued)

Business segments (continued)

	Plush stuffed toys		Steel and plastic toys		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Depreciation and amortisation for the year	**12,425**	7,905	**–**	–	**12,425**	7,905
Significant non-cash expenses (other than depreciation and amortisation)	**3,676**	6,977	**–**	–	**3,676**	6,977
Segment assets	**362,610**	312,853	**31,364**	–	**393,974**	312,853
Unallocated assets	**–**	191	**–**	–	**–**	191
Total assets	**362,610**	313,044	**31,364**	–	**393,974**	313,044
Segment liabilities	**92,536**	84,956	**9,078**	–	**101,614**	84,956
Unallocated liabilities	**13,267**	17,620	**–**	–	**13,267**	17,620
Total liabilities	**105,803**	102,576	**9,078**	–	**114,881**	102,576
Capital expenditure incurred during the year	**27,258**	59,307	**30,024**	–	**57,282**	59,307

Geographical segments

The group participates in four principal economic environments.

In presenting information on the basis of geographical segments, segment turnover is based on the geographical destination of delivery of goods. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover		Segment assets		Capital expenditure incurred during the year	
	2001	2000	**2001**	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
United States	**387,792**	370,776	**12,402**	–	**3,138**	–
Japan	**252,175**	269,174	**–**	–	**–**	–
South East Asia (other than Japan)	**59,016**	82,780	**–**	–	**–**	–
Europe	**51,542**	26,229	**–**	–	**–**	–
Hong Kong	**–**	–	**150,640**	113,439	**738**	3,197
PRC (other than Hong Kong)	**–**	–	**230,932**	199,414	**53,406**	56,110
Others	**5,524**	4,478	**–**	–	**–**	–
	756,049	753,437	**393,974**	312,853	**57,282**	59,307

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

	Land use rights and buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Office equipment, furniture and fixtures $'000	Motor vehicles $'000	Total $'000
(a) The group						
Cost or valuation:						
At 1 January 2001	26,949	13,823	41,068	14,046	5,014	100,900
Additions						
– through acquisition of subsidiaries	–	560	13,250	1,343	702	15,855
– others	394	708	2,587	1,260	1,227	6,176
Disposals	–	(1,017)	(288)	(22)	(429)	(1,756)
Transfer from construction in progress (note 14)	12,963	–	12,937	–	–	25,900
At 31 December 2001	40,306	14,074	69,554	16,627	6,514	147,075
Representing:						
Cost	–	14,074	69,554	16,627	6,514	106,769
Valuation – 2001	40,306	–	–	–	–	40,306
	40,306	14,074	69,554	16,627	6,514	147,075
Aggregate amortisation and depreciation:						
At 1 January 2001	87	6,717	16,543	7,234	2,807	33,388
Through acquisition of subsidiaries	–	256	11,327	1,051	399	13,033
Charge for the year	770	2,399	6,099	2,198	959	12,425
Written back on disposal	–	(814)	(17)	(7)	(297)	(1,135)
Written back on revaluation	(701)	–	–	–	–	(701)
At 31 December 2001	156	8,558	33,952	10,476	3,868	57,010
Net book value:						
At 31 December 2001	40,150	5,516	35,602	6,151	2,646	90,065
At 31 December 2000	26,862	7,106	24,525	6,812	2,207	67,512

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (continued)

	Leasehold improvements $'000	Plant and machinery $'000	Office equipment, furniture and fixtures $'000	Motor vehicles $'000	Total $'000
(b) The company					
Cost:					
At 1 January 2001	12,094	24,846	11,842	2,526	51,308
Additions	548	93	607	131	1,379
Disposals	(1,017)	–	–	–	(1,017)
At 31 December 2001	11,625	24,939	12,449	2,657	51,670
Aggregate depreciation:					
At 1 January 2001	5,848	14,534	6,413	1,578	28,373
Charge for the year	2,128	3,479	1,757	442	7,806
Written back on disposal	(814)	–	–	–	(814)
At 31 December 2001	7,162	18,013	8,170	2,020	35,365
Net book value:					
At 31 December 2001	4,463	6,926	4,279	637	16,305
At 31 December 2000	6,246	10,312	5,429	948	22,935

(c) The analysis of net book value of land use rights and buildings is as follows:

	2001 $'000	2000 $'000
Outside Hong Kong – medium-term leases	**40,150**	26,862

(d) Certain fixed assets of the group are pledged to secure bank loans and other facilities granted to the group as follows (note 21):

	2001 $'000	2000 $'000
Net book value of pledged fixed assets:		
– Land use rights	**4,444**	4,426
– Plant and machinery	**–**	1,778
	4,444	6,204

13 FIXED ASSETS (CONTINUED)

(e) The group's land use rights and buildings held for own use were revalued at 30 November 2001 by Mr. Raymond Ho Kai Kwong who is an associate member of the Hong Kong Institute of Surveyors and a qualified surveyor of Vigers Hong Kong Ltd., at their open market value. The revaluation surplus of $701,000 has been transferred to the land use rights and buildings revaluation reserve of the group (note 24).

The carrying amount of the land use rights and buildings held for own use of the group at 31 December 2001 would have been $39,451,000 had they been carried at cost less accumulated depreciation.

14 CONSTRUCTION IN PROGRESS

	2001 **$'000**	2000 $'000
At 1 January	**8,069**	–
Additions	**17,944**	31,218
Transfer to fixed assets (note 13(a))	**(25,900)**	(23,149)
At 31 December	**113**	8,069

15 GOODWILL

	Negative goodwill $'000	**Positive goodwill** $'000	**Total** $'000
Cost:			
At 1 January 2001	(15,436)	–	(15,436)
Addition arising on acquisition of subsidiary	(3,524)	888	(2,636)
At 31 December 2001	(18,960)	888	(18,072)
Accumulated amortisation:			
At 1 January 2001	–	–	–
Recognised as income upon acquisition	3,048	–	3,048
Amortisation for the year	1,544	–	1,544
At 31 December 2001	4,592	–	4,592
Carrying amount:			
At 31 December 2001	(14,368)	888	(13,480)
At 31 December 2000	(15,436)	–	(15,436)

Negative goodwill is recognised as income on a straight-line basis over ten years.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

16 INVESTMENTS IN SUBSIDIARIES

	2001	2000
	$'000	$'000
Unlisted shares, at cost	**111,064**	57,594

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the group financial statements.

Company name	**Place of incorporation and operation**	**Particulars of issued and fully paid-up capital/ registered capital**	**Attributable equity interest**	**Principal activity**
C & H Toy of America, Inc. (note (i)) #	United States of America	US$1,000,000	100%	Trading of plush stuffed toys
J.Y. Toys Co., Limited (note (i))	Hong Kong	US$1,500,000	100%	Trading and manufacture of steel and plastic toys
J.Y. International Company Limited	Hong Kong	US$500,000	100%	Trading of plush stuffed toys
* Jung Yoon Toys (Shanghai) Co., Limited #	PRC	US$420,000	100%	Manufacture of plush stuffed toys
* C & H Toys (Suzhou) Co., Ltd. (note (ii)) #	PRC	US$9,200,000	100%	Manufacture of plush fabrics and plush stuffed toys

* These are wholly-owned foreign investment enterprises registered under the Laws of the PRC.

Subsidiaries not audited by KPMG.

16 INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

(i) As part of the Group Reorganisation, the company acquired the entire share capital of C & H Toy of America, Inc. and J.Y. Toys Co., Limited, being 100,000 shares in C & H Toy of America, Inc. and 1,500,000 shares in J.Y. Toys Co., Limited from C & H Co., Ltd. at a total consideration of US$4,301,143 on 30 and 31 December 2001 respectively.

(ii) In November 2001 C & H Toys (Suzhou) Co., Ltd. completed its merger with another wholly owned subsidiary of the company, C & H Plush (Suzhou) Co., Ltd. C & H Plush (Suzhou) Co., Ltd. ceased to exist following the merger.

17 INVENTORIES

	The group		The company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Raw materials	**43,794**	30,405	**24,218**	20,924
Work in progress	**15,051**	11,212	**9,396**	7,675
Finished goods	**21,108**	27,004	**11,201**	21,432
	79,953	68,621	**44,815**	50,031

Raw materials are stated net of a general provision of $3,146,000 (2000: $2,813,000), made in order to state these inventories at the lower of their cost and estimated net realisable value.

18 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Amount due from ultimate holding company	**310**	31,149	**–**	31,149
Amounts due from fellow subsidiaries	**7,747**	15,976	**157**	9,769
Amounts due from subsidiaries	**–**	–	**2,026**	7,874
Trade debtors, bills receivable, deposits and prepayments	**103,140**	42,808	**36,762**	11,482
	111,197	89,933	**38,945**	60,274

(Expressed in Hong Kong dollars)

18 TRADE AND OTHER RECEIVABLES (continued)

Included in trade and other receivables are trade debtors and bills receivable (net of specific allowances for bad and doubtful debts) with the following ageing analysis:

	The group		The company	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Current	**35,802**	7,323	**14,644**	2,797
1 to 3 months	**36,718**	8,342	**13,241**	3,577
More than 3 months but less than 12 months	**5,997**	4,505	**1,859**	1,577
	78,517	20,170	**29,744**	7,951

Trade receivables, which generally have terms of 14 to 90 days, are recognised and carried in the balance sheets at original invoice amounts less provisions for overdue debts which are considered by the directors to be doubtful.

19 CASH AND CASH EQUIVALENTS

	The group		The company	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Deposits with banks and other financial institutions	**55,552**	48,208	**55,552**	25,239
Cash at banks and in hand	**70,574**	45,946	**25,882**	8,903
	126,126	94,154	**81,434**	34,142

20 TRADE AND OTHER PAYABLES

	The group		The company	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Creditors and accrued charges	**87,865**	59,399	**21,689**	16,816
Amount due to ultimate holding company	**7,491**	22,095	**3,219**	–
Amounts due to fellow subsidiaries	**6,258**	3,462	**4,506**	1,954
Amounts due to subsidiaries	**–**	–	**19,385**	16,380
	101,614	84,956	**48,799**	35,150

(Expressed in Hong Kong dollars)

20 TRADE AND OTHER PAYABLES (continued)

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

	The group		The company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Within 1 month	**41,049**	32,157	**10,592**	9,934
After 1 month but within 3 months	**7,014**	6,163	**–**	–
After 3 months but within 6 months	**740**	450	**–**	–
After 6 months but within 1 year	**643**	935	**–**	–
	49,446	39,705	**10,592**	9,934

21 BANK LOANS

At 31 December 2001, the bank loans were repayable as follows:

	The group		The company	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Within 1 year	**–**	15,370	**–**	–

The banking facilities of certain subsidiaries are secured by mortgages over their land use rights with an aggregate carrying value of $4,444,000 (2000: $6,204,000). Such banking facilities, amounting to $4,815,000 (2000: $15,370,000), were utilised to the extent of $Nil (2000: $15,370,000) at 31 December 2001.

22 DEFERRED TAX ASSETS

(a) Movements on deferred tax assets comprise:

	The group	
	2001	2000
	$'000	$'000
At 1 January	**191**	637
Transfer to the income statement (note 5(a))	**(191)**	(446)
At 31 December	**–**	191

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

22 DEFERRED TAX ASSETS (continued)

(b) Major components of deferred tax of the group are set out below:

	2001		2000	
		Potential liabilities		Potential liabilities
	Provided	**unprovided**	Provided	unprovided
	$'000	**$'000**	$'000	$'000
Tax value of losses carried forward	**–**	**–**	191	–
Depreciation allowances in excess of related depreciation	**–**	**(1,028)**	–	(1,582)
Others	**–**	**1,061**	–	1,061
	–	**33**	191	(521)

(c) Major components of deferred tax of the company are set out below:

	2001		2000	
		Potential liabilities		Potential liabilities
	Provided	**unprovided**	Provided	unprovided
	$'000	**$'000**	$'000	$'000
Depreciation allowances in excess of related depreciation	**–**	**(890)**	–	(1,582)

(d) No provision for deferred taxation has been made in respect of the revaluation surplus arising on land use rights and buildings as it is not material.

23 SHARE CAPITAL

	2001		2000	
	No. of shares '000	**Amount $'000**	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of US$0.01 (2000: US$1) (note (i))	**140,000**	**10,794**	1,400	10,794
Issued and fully paid:				
At 1 January	**1,400**	**10,794**	1,100	8,481
Issue of shares	**–**	**–**	300	2,313
Subdivision of shares (note (i))	**138,600**	**–**	–	–
At 31 December	**140,000**	**10,794**	1,400	10,794

Notes:

(i) On 10 December 2001 the authorised and issued share capital of the company, comprising 1,400,000 shares of US$1.00 each fully paid up were subdivided into 140,000,000 shares of US$0.01 each.

(ii) Pursuant to a written resolution passed by the shareholders on 22 January 2002, the authorised share capital of the company was increased from US$1,400,000 to US$50,000,000 by the creation of a further 4,860,000,000 shares. In addition, US$3,475,000 standing to the credit of the share premium account (after taking into account the share premium arising from the new issue and placing of the company's shares pursuant to the listing of the company's shares on the SEHK) was applied in paying up in full at par 347,500,000 shares of US$0.01 each for allotment and issue to the shareholders in proportion to their then holdings.

(iii) In February 2002, 162,500,000 shares were issued at an issue price of $1.20 each upon the listing of the company's shares on the SEHK.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

24 RESERVES

	Share premium (note (ii)) $'000	General reserve fund (note (i)) $'000	Revaluation reserve – Land use rights and buildings (note (ii)) $'000	Retained profits $'000	Total $'000
(a) Group					
At 1 January 2000	–	–	–	102,419	102,419
Issue of shares	20,817	–	–	–	20,817
Profit for the year	–	–	–	76,438	76,438
At 31 December 2000	20,817	–	–	178,857	199,674
At 1 January 2001	20,817	–	–	178,857	199,674
Transfer between reserves	–	8,204	–	(8,204)	–
Revaluation surplus (note 13(e))	–	–	701	–	701
Profit for the year	–	–	–	98,854	98,854
Dividends declared in respect of the current year (note 9)	–	–	–	(30,930)	(30,930)
At 31 December 2001	20,817	8,204	701	238,577	268,299

Notes:

(i) According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiaries of the company are required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's registered capital. This fund can be used to make good losses and to convert into paid-up capital.

(ii) The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The revaluation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for the revaluation of land use rights and buildings held for own use (note 1(f)).

24 RESERVES (continued)

	Share premium $'000	Retained profits $'000	Total $'000
(b) Company			
At 1 January 2000	–	113,914	113,914
Issue of shares	20,817	–	20,817
Profit for the year	–	42,051	42,051
At 31 December 2000	20,817	155,965	176,782
At 1 January 2001	20,817	155,965	176,782
Profit for the year	–	73,730	73,730
Dividends declared in respect of the current year (note 9)	–	(30,930)	(30,930)
At 31 December 2001	20,817	198,765	219,582

At 31 December 2001, the aggregate amount of reserves available for distribution to shareholders of the company was $198,765,000 (2000: $155,965,000). After the balance sheet date the directors proposed a final dividend of $0.048 per share (2000: $Nil), amounting to $31,200,000 (2000: $Nil). This dividend has not been recognised as a liability at the balance sheet date.

25 NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT

(a) Reconciliation of profit from ordinary activities before taxation to net cash inflow from operating activities

	2001 $'000	2000 $'000
Profit from ordinary activities before taxation	**104,957**	80,019
Negative goodwill	**(4,592)**	(4,872)
Depreciation	**12,425**	7,905
Interest income	**(3,320)**	(2,194)
Interest expense	**230**	155
Net loss on sale of fixed assets	**203**	–
Provision for bad debts	**3,676**	6,977
Decrease/(increase) in net amounts due from fellow subsidiaries	**13,668**	(2,633)
Increase in inventories	**(5,489)**	(12,913)
Increase in trade and other receivables	**(58,816)**	(1,085)
Decrease/(increase) in net amount due from ultimate holding company	**16,235**	(7,222)
Increase in trade payables	**5,085**	15,046
Increase/(decrease) in accrued expenses and other payables	**13,627**	(15,972)
Net cash inflow from operating activities	**97,889**	63,211

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

25 NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT (CONTINUED)

(b) Analysis of changes in financing

	Shareholders' equity (excluding retained profits)	Bank loans
	$'000	$'000
At 1 January 2000	8,481	7,710
Net cash inflow from financing	23,130	7,660
At 31 December 2000 and 1 January 2001	31,611	15,370
Net cash outflow from financing	–	(15,370)
At 31 December 2001	31,611	–

(c) Purchase of subsidiaries

	2001	2000
	$'000	$'000
Net assets acquired:		
Fixed assets	**2,822**	15,436
Inventories	**5,843**	9,545
Debtors, bills receivable, deposits and prepayments	**15,928**	23,721
Cash at banks and in hand	**28,931**	11,038
Creditors and accrued charges	**(17,726)**	(17,459)
	35,798	42,281
Negative goodwill (net of positive goodwill) arising on consolidation	**(2,636)**	(20,308)
	33,162	21,973
Satisfied by : Cash paid	**33,162**	21,973

(Expressed in Hong Kong dollars)

25 NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT (continued)

(d) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2001	2000
	$'000	$'000
Cash consideration	**33,162**	21,973
Cash at banks and in hand acquired	**(28,931)**	(11,038)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	**4,231**	10,935

26 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2001 not provided for in the financial statements were as follows:

	The group		The company	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
Contracted for	**1,692**	9,883	**1,174**	–

(b) At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	The group		The company	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
Within 1 year	**19,798**	19,379	**13,766**	13,407
After 1 year but within 5 years	**23,008**	31,102	**17,311**	27,155
	42,806	50,481	**31,077**	40,562

The group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

27 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the group entered into the following transactions with its related parties:

		2001 $'000	2000 $'000
(i)	Sales to		
	The ultimate holding company:		
	– C & H Co., Ltd.	**376,310**	382,484
	Fellow subsidiaries:		
	– C & H Lanka (PVT) Ltd.	**3,836**	–
	– Gina World Co., Ltd.	**23,076**	13,752
		403,222	396,236
(ii)	Purchases from		
	The ultimate holding company:		
	– C & H Co., Ltd.	**54,990**	53,431
	Fellow subsidiaries:		
	– C & H Lanka (PVT) Ltd.	**3,531**	6,428
	– Jung Yoon Textile (Private) Ltd.	**8,410**	6,771
	– C & H Plush (Suzhou) Co., Ltd. (prior to acquisition in December 2000)	**–**	79,295
		66,931	145,925
(iii)	Sales commission paid/payable to		
	The ultimate holding company:		
	– C & H Co., Ltd.	**1,005**	7,128
	Fellow subsidiary:		
	– C & H Toy of America, Inc. (prior to acquisition in December 2001)	**5,847**	9,043
		6,852	16,171

The directors of the company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business on normal commercial terms.

(iv) In December 2001, the group acquired the entire share capital of C & H Toy of America, Inc. and J.Y. Toys Co., Limited from C & H Co., Ltd. for a total consideration of US$4,301,143 pursuant to the Group Reorganisation to rationalise the group structure in preparation of a listing of the company's shares on the SEHK.

28 POST BALANCE SHEET EVENTS

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 9.

(b) Details of the increase in the authorised and issued share capital of the company are disclosed in note 23.

(c) The company's shares were listed on the Main Board of the SEHK on 7 February 2002.

29 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2001 to be C & H Co., Ltd., which is incorporated in the Republic of Korea.