1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company

The Company was incorporated as an exempted company with limited liability in Bermuda on 22 August 2001 under the Companies Act 1981 of Bermuda. On incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each. On 11 September 2001, the Company allotted and issued an aggregate of 1,000,000 shares nil paid to Great Victory International Inc. ("Great Victory"), which then became the holding company of the Company. Apart from the foregoing and the preparation for the listing of the Company's shares (the "Listing") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), no other transactions were carried out by the Company during the period from 22 August 2001 (date of incorporation of the Company) to 31 December 2001. Accordingly, the Company did not have any results for the period.

On 5 February 2002, the authorised share capital of the Company was increased from HK$100,000 divided into 1,000,000 shares of HK$0.10 each to HK$100,000,000 divided into 1,000,000,000 shares of HK$0.10 each by the creation of an additional 999,000,000 shares of HK$0.10 each.

Comparative amounts have not been presented for the Company's balance sheet because the Company was not in existence at 31 December 2000.

Group reorganisation

Pursuant to a reorganisation arrangement (the "Reorganisation") to rationalise the structure of the Group in preparation for the Listing, on 5 February 2002, the Company acquired the entire issued share capital of Sewco (B.V.I.) Limited ("Sewco BVI"), the then holding company of the other subsidiaries set out in note 30 to the financial statements, thereby becoming the holding company of the companies now comprising the Group. Further details of the Reorganisation are also set out in the prospectus of the Company dated 22 February 2002 (the "Prospectus").

Basis of presentation

The Reorganisation involved companies under common control. As the Reorganisation took place subsequent to the balance sheet date, on 5 February 2002, for accounting purposes, in the preparation of the Company's financial statements for the next year ending 31 December 2002, the Company and its acquired subsidiaries (as further detailed in note 30 to the financial statements) will be regarded and accounted for as a continuing group. Accordingly, for the benefit of shareholders, pro forma combined financial statements for the current year and the related notes thereto have been presented in these financial statements on pages 28 to 59, on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the subsidiaries on 5 February 2002, as required by Statement of Standard Accounting Practice ("SSAP") No. 2.127, "Accounting for Group Reconstructions". The pro forma combined balance sheets as at 31 December 2001 and 2000 and the combined results of the Group for the years then ended include the balance sheets and the results of the Company and its subsidiaries as if the group structure, which comprises the Company and all of the other companies as wholly-owned subsidiaries of the Company, resulting from the aforementioned Reorganisation executed on 5 February 2002, had been in existence throughout the years ended 31 December 2001 and 2000, and since 1 January 2000 or since the respective dates of incorporation/registration of the Company and its subsidiaries, where this is a shorter period.

1. GROUP REORGANISATION AND BASIS OF PRESENTATION (continued)

Basis of presentation (continued)

In July 2001, the Group's trading activities in short term investments were discontinued. For the purpose of the financial information presented in the accountants' report included in the Prospectus (the "Summary"), any changes in the fair values of the investments, the related dividend income and the gain or loss arising from the trading of investments had been excluded from the combined results included in the Summary. For the purpose of these pro forma combined financial statements, the operating results attributable to these discontinued investment activities have been included in the pro forma combined results of the Group, and the tax effects in relation thereof have also been included. Nevertheless, the results from these trading activities have not been presented under discontinued operation as the related results are not material.

All significant intercompany transactions and balances within the Group have been eliminated on combination.

Although the Reorganisation had not been completed and, accordingly, the Group did not legally exist until 5 February 2002, in the opinion of the directors, the presentation of such supplementary pro forma combined financial statements prepared on the above basis is necessary to apprise the Company's shareholders of the Group's results and state of affairs as a whole.

2. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The reorganised Group has been involved in the principal activities of manufacturing and trading of hard and stuffed toys throughout all periods presented in the supplementary pro forma combined financial information.

In the opinion of the directors, the ultimate holding company of the Company as at the date on which these financial statements were approved for issue was Great Victory, a company incorporated in the British Virgin Islands.

3. IMPACT OF NEW AND REVISED SSAPs

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) "Events after the balance sheet date"
- SSAP 14 (Revised) "Leases"
- SSAP 18 (Revised) "Revenue"
- SSAP 26 "Segment reporting"
- SSAP 28 "Provisions, contingent liabilities and contingent assets"
- SSAP 29 "Intangible assets"
- SSAP 30 "Business combinations"
- SSAP 31 "Impairment of assets"
- SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that a proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The revised SSAP has had no significant impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 25 and 32 to the financial statements, respectively.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP has had no effects on these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. This SSAP has had no effects on these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong, subject to the pro forma basis of presentation as set out in note 1 above, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the pro forma combined profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the pro forma combined profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than land use rights, are stated at cost or valuation less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the pro forma combined profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

As a result of the Listing, the Group has revalued certain of its fixed assets as at 31 December 2001 as disclosed in the Prospectus. In order to reflect the financial effect involved in the remeasurement of certain of the Group's fixed assets on a valuation basis which principally involved the incorporation of a surplus on revaluation in the amount of HK$28,789,000 in the pro forma combined financial statements of the Group for the year ended 31 December 2001, the Group changed its accounting policy for the remeasurement of the Group's fixed assets as set out in note 15 to the financial statements. The revaluation surplus of HK$28,789,000 is credited to the fixed assets revaluation reserve during the year.

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the pro forma combined profit and loss account. Any subsequent revaluation surplus is credited to the pro forma combined profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed assets revaluation reserve realised in respect of previous valuations is transferred to the pro forma combined retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Furniture, fixtures and office equipment	15% – 20%
Motor vehicles	20%
Plant and machinery	10% – 15%

The gain or loss on disposal or retirement of a fixed asset recognised in the pro forma combined profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land use rights

Rights to the use of sites are stated at valuation and amortised on a straight-line basis over the terms of the land use rights or the initial terms of the entity agreement, whichever is the shorter, starting from the date the related construction is completed and ready for its intended use.

The Group intends to apply for an extension of the operating tenure of its subsidiary in the People's Republic of China (the "PRC") upon its expiry, from 15 years to 50 years. As advised by the PRC legal advisors to the Group, the directors believe that such application will normally be granted upon application. Accordingly, the land use rights of the subsidiary are amortised on the straight-line basis to write off their valuation over 50 years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the pro forma combined profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the pro forma combined profit and loss account on the straight-line basis over the lease terms.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the pro forma combined profit and loss account in the period in which they arise. The trading of short term investments had been discontinued since July 2001.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis or on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal.

Cash equivalents

For the purpose of the pro forma combined cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of pro forma combined balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the pro forma combined profit and loss account.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) dividend income, when the shareholders' right to receive payment has been established;

(d) rental income, on a time proportion basis over the lease terms; and

(e) income from the trading of short term investments, on the date the transactions are entered into.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the pro forma combined balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the pro forma combined profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation difference is included in the exchange fluctuation reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension scheme and costs

The Group operates defined contribution retirement benefits schemes in Hong Kong, including a Mandatory Provident Fund Scheme, for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the pro forma combined profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the schemes, with the exception of the Mandatory Provident Fund Scheme, prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of any forfeited contributions. In respect of the Mandatory Provident Fund Scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

Staff in the Group's PRC subsidiary are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiary is required to contribute a specific amount for the employees in the PRC, pursuant to the local municipal government regulations. Contributions to this retirement benefits scheme are charged to the pro forma combined profit and loss account in the period to which they relate.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the hard toys segment manufactures and trades hard toy products;

(b) the stuffed toys segment manufactures and trades stuffed toy products; and

(c) the corporate and other segment comprises general corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the Group's markets and customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue and profit/(loss) information regarding business segments for the years ended 31 December 2001 and 2000, and certain asset and liability information regarding business segments as at 31 December 2001 and 2000.

Group	Hard toys		Stuffed toys		Corporate and others		Eliminations		Combined	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**277,611**	193,528	**85,588**	145,423	**–**	–	**–**	–	**363,199**	338,951
Intersegment sales	**–**	–	**3,179**	2,216	**–**	–	**(3,179)**	(2,216)	**–**	–
Other revenue from external sources	**1,843**	1,923	**195**	552	**(222)**	(1,821)	**–**	–	**1,816**	654
Intersegment other revenue	**5,232**	11,150	**–**	–	**–**	–	**(5,232)**	(11,150)	**–**	–
Total	**284,686**	206,601	**88,962**	148,191	**(222)**	(1,821)	**(8,411)**	(13,366)	**365,015**	339,605
Segment results	**32,100**	14,934	**7,243**	20,231	**(222)**	(1,821)	**–**	–	**39,121**	33,344
Interest income									**1,204**	2,035
Finance costs									**(216)**	(439)
Profit before tax									**40,109**	34,940
Tax									**(2,367)**	(4,693)
Net profit from ordinary activities attributable to shareholders									**37,742**	30,247
Segment assets	**199,529**	138,817	**41,991**	48,591	**11,063**	6,542	**(21,401)**	(15,830)	**231,182**	178,120
Segment liabilities	**70,498**	56,119	**14,252**	9,613	**15,986**	12,806	**(21,399)**	(15,832)	**79,337**	62,706
Other segment information:										
Capital expenditure	**992**	11,120	**319**	105	**–**	–	**–**	–	**1,311**	11,225
Amortisation of land use rights	**243**	246	**–**	–	**–**	–	**–**	–	**243**	246
Depreciation	**5,837**	5,460	**407**	363	**–**	–	**–**	–	**6,244**	5,823
Surplus on revaluation of leasehold land and buildings	**18,315**	–	**–**	–	**–**	–	**–**	–	**18,315**	–
Surplus on revaluation of land use rights	**10,474**	–	**–**	–	**–**	–	**–**	–	**10,474**	–
Other non-cash expenses	**412**	8,040	**327**	(527)	**–**	–	**–**	–	**739**	7,513

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

	USA/ Canada		Japan		Hong Kong and PRC		Corporate and eliminations		Combined	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**306,576**	275,445	**56,623**	63,506	**–**	–	**–**	–	**363,199**	338,951
Other revenue	**747**	847	**785**	319	**506**	1,309	**(222)**	(1,821)	**1,816**	654
Total	**307,323**	276,292	**57,408**	63,825	**506**	1,309	**(222)**	(1,821)	**365,015**	339,605
Segment results	**32,298**	26,229	**6,524**	7,627	**521**	1,309	**(222)**	(1,821)	**39,121**	33,344
Other segment information:										
Segment assets	**–**	–	**–**	–	**220,119**	171,578	**11,063**	6,542	**231,182**	178,120
Capital expenditure	**–**	–	**–**	–	**1,311**	11,225	**–**	–	**1,311**	11,225

6. TURNOVER, OTHER REVENUE AND GAINS, NET

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Turnover		
Sale of goods:		
Hard toys	**277,611**	193,528
Stuffed toys	**85,588**	145,423
	363,199	338,951
Other revenue		
Mould income	**1,532**	1,166
Sundry income	**386**	1,309
Interest income	**1,204**	2,035
Dividend income from short term investments	**–**	18
	3,122	4,528
Gains/(losses)		
Decrease in fair value of short term investments	**(188)**	(2,180)
Gain/(loss) on disposal of short term investments	**(34)**	341
Write-back of provision for doubtful debts	**120**	–
	(102)	(1,839)
Total other revenue and gains, net	**3,020**	2,689

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2001	2000
	HK$'000	HK$'000
Cost of inventories sold	**284,109**	256,984
Provision for obsolete inventories	**739**	7,513
Depreciation	**6,244**	5,823
Amortisation of land use rights*	**243**	246
Minimum lease payments under operating leases in respect of land and buildings	**2,111**	2,008
Auditors' remuneration	**600**	396
Staff costs (excluding directors' remuneration – note 9):		
Wages and salaries	**50,552**	37,147
Other staff benefits	**1,547**	2,422
Gross pension scheme contributions	**358**	328
Less: Forfeited contributions**	**–**	(102)
Pension scheme contributions, net	**358**	226
Total staff costs	**52,457**	39,795
Foreign exchange losses, net	**142**	306
Loss/(gain) on disposal of other fixed assets, net	**(15)**	511

* The amortisation of land use rights for the year is included in "Administrative expenses" on the face of the pro forma combined profit and loss account.

** At 31 December 2001, the Group had no material forfeited contributions available to offset future pension scheme contributions to the schemes (2000: Nil).

8. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	HK$'000
Interest expense on:		
Bank loans, bank overdrafts and other loans wholly repayable within five years	**210**	400
Finance leases	**6**	39
	216	439

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Fees	**–**	–
Salaries, housing benefits and other allowances	**4,762**	4,537
Discretionary bonus	**1,400**	–
Pension scheme contributions	**141**	84
	6,303	4,621

There was no remuneration payable to the independent non-executive directors during the year (2000: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all (2000: five) executive directors, details of whose remuneration are set out in note 9 above.

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

The provision for income tax of a subsidiary operating in the PRC has been calculated at the applicable rate of tax prevailing in the areas in which that subsidiary operates, based on existing legislation, interpretations and practices in respect thereof, during the year. According to the Income Tax Law of the PRC, the Company's subsidiary which operates in Zhongshan, the PRC, has obtained a 50% relief from PRC income tax granted by Zhongshan State Tax Bureau. Accordingly, PRC income tax has been provided at 12% during the year.

	Group	
	2001	2000
	HK$'000	HK$'000
Hong Kong	**4,350**	4,198
Elsewhere	**284**	379
Overprovision in prior years	**(2,923)**	(544)
Deferred tax (note 26)	**656**	660
Tax charge for the year	**2,367**	4,693

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Company did not have any results for the period from 22 August 2001 (date of incorporation) to 31 December 2001.

13. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation on 22 August 2001 up to 31 December 2001. The dividends paid or declared by certain subsidiaries of the Company to their then shareholders prior to the Reorganisation as set out in note 1 to the financial statements are as follows:

	2001	2000
	HK$'000	HK$'000
Sewco Toys & Novelty Limited	**10,000**	35,000
Pearl Delta Toys Limited	**20,000**	12,000
Grampian Investments Trading Limited	**–**	3,405
	30,000	50,405

Subsequent to the balance sheet date, the directors recommended a special dividend in respect of the year ending 31 December 2002, as further detailed in note 34 to the financial statements.

14. EARNINGS PER SHARE

The calculation of pro forma basic earnings per share for the year is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year of HK$37,742,000 (2000: HK$30,247,000) and the pro forma weighted average of 320,000,000 shares (2000: 320,000,000 shares) deemed to be in issue throughout the year as further detailed in note 27 to the financial statements.

Diluted pro forma earnings per share amounts for the years ended 31 December 2001 and 2000 have not been disclosed as no diluting events existed during these years.

15. FIXED ASSETS

Group	**Land use rights**	**Leasehold land and buildings**	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Plant and machinery**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:						
At beginning of year	12,354	42,802	5,539	5,164	37,640	103,499
Additions	–	–	849	165	297	1,311
Disposals	–	–	(24)	–	(67)	(91)
Surplus on revaluation (note 28)	9,152	7,013	–	–	–	16,165
Exchange realignments	(2)	(6)	(1)	(1)	(9)	(19)
At 31 December 2001	**21,504**	**49,809**	**6,363**	**5,328**	**37,861**	**120,865**
Analysis of cost or valuation:						
At cost	–	–	6,363	5,328	37,861	49,552
At 2001 valuation	21,504	49,809	–	–	–	71,313
	21,504	49,809	6,363	5,328	37,861	120,865
Accumulated depreciation, amortisation and impairment:						
At beginning of year	1,079	9,800	3,176	3,834	14,290	32,179
Provided during the year	243	1,503	764	442	3,535	6,487
Disposals	–	–	(21)	–	(49)	(70)
Written back on revaluation (note 28)	(1,322)	(11,302)	–	–	–	(12,624)
Exchange realignments	–	(1)	(1)	–	(3)	(5)
At 31 December 2001	**–**	**–**	**3,918**	**4,276**	**17,773**	**25,967**
Net book value:						
At 31 December 2001	**21,504**	**49,809**	**2,445**	**1,052**	**20,088**	**94,898**
At 31 December 2000	11,275	33,002	2,363	1,330	23,350	71,320

15. FIXED ASSETS (continued)

No fixed assets were held under finance leases as at 31 December 2001. The net book value of fixed assets held under financial leases and included in the total amount of motor vehicles at 31 December 2000 amounted to HK$96,000.

The Group's leasehold land and buildings in Hong Kong were revalued individually at the balance sheet date by Castores Magi Surveyors Limited ("CMS"), independent professionally qualified valuers, at an aggregate open market value of HK$9,080,000, based on their existing use. The Group's land and buildings and land use rights in the PRC were also revalued individually at the balance sheet date by CMS at an aggregate value of HK$62,233,000 using the depreciated replacement cost method. A revaluation surplus of HK$28,789,000 resulting from the above valuations has been credited to the Group's revaluation reserve (note 28).

Had the Group's leasehold land and buildings in Hong Kong been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$8,925,000. Had the Group's land and buildings and land use rights in PRC been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$22,569,000 and HK$11,030,000, respectively.

The Group's leasehold land and buildings included above are held under the following lease terms:

	Hong Kong	**PRC**	**Total**
	HK$'000	HK$'000	HK$'000
At valuation:			
Long term leases	7,970	–	7,970
Medium term leases	1,110	40,729	41,839
	9,080	40,729	49,809

Certain of the Group's leasehold land and buildings situated in Hong Kong with an aggregate value of HK$2,630,000 (2000: HK$3,820,000) have been pledged to banks in Hong Kong as security in respect of banking facilities of approximately HK$24,960,000 (2000: HK$26,737,000) granted to the Group. As at 31 December 2001, such facilities were utilised to the extent of HK$2,960,000 (2000: HK$3,737,000) (note 24).

16. LOAN RECEIVABLE

The balance represents an advance of HK$4,500,000 by a subsidiary of the Company made to an employee of the Group, which is secured by a first legal charge over a leasehold property situated in Hong Kong held by the borrower and a personal guarantee given by a director of the Group. The amount bears interest at 6.667% per annum and is repayable in November 2002. Accordingly, the loan receivable has been classified as a current asset as at 31 December 2001.

17. SHORT TERM INVESTMENTS

	Group	
	2001	2000
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**–**	473

18. INVENTORIES

	Group	
	2001	2000
	HK$'000	HK$'000
Raw materials	**24,446**	21,503
Work in progress	**18,720**	12,477
Finished goods	**9,273**	7,888
	52,439	41,868

No inventories were stated at net realisable value at the balance sheet date (2000: Nil).

19. TRADE RECEIVABLES

An aged analysis of the trade receivables from the manufacture and sale of goods at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Current to 30 days	**41,486**	18,475
31 to 90 days	**9,748**	2,642
	51,234	21,117

The Group normally allows credit terms for established customers ranging from 14 to 45 days.

20. DUE FROM/(TO) RELATED COMPANIES

Particulars of the amounts due from related companies of the Group are as follows:

Group	31 December 2001 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2000 HK$'000
Evergain Development Limited	**2**	222	218
Sewco Toys (China) Limited	**–**	30	30
	2		248

Mr Cheung Po Lun ("Mr Cheung"), a director of the Company, has beneficial interests in the above companies.

The amounts due from the above related companies are unsecured, interest-free and have no fixed terms of repayment.

The balance due to a related company of the Company represents initial public offering expenditure paid on behalf of the Company by Sewco Toys & Novelty Limited, which became an indirect wholly-owned subsidiary of the Company after the Reorganisation as set out in note 1 to the financial statements. The balance is unsecured, interest-free and has no fixed terms of repayment.

21. DUE FROM A DIRECTOR

Particulars of the amount due from a director, disclosed pursuant to section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	31 December 2001 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2000 HK$'000
Mr Cheung	**51**	905	721

The amount due from the director is unsecured, interest-free and has no fixed terms of repayment.

22. CASH AND CASH EQUIVALENTS

	Group	
	2001	2000
	HK$'000	HK$'000
Cash and bank balances	**20,252**	12,793
Time deposits	**–**	23,615
Cash and cash equivalents	**20,252**	36,408

23. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Current to 30 days	**23,123**	29,503
31 to 90 days	**26,095**	8,399
Over 90 days	**4,260**	1,107
	53,478	39,009

Included in last year's balance was a balance of HK$913,000 due to a subcontractor in the PRC, in which a former director of certain subsidiaries of the Company had beneficial interests.

24. INTEREST-BEARING BANK LOANS

	Group	
	2001	2000
	HK$'000	HK$'000
Bank loans – secured (note 15)	**2,960**	3,737
Bank loans repayable:		
Within one year or on demand	**472**	529
In the second year	**489**	600
In the third to fifth years, inclusive	**1,577**	1,510
Beyond five years	**422**	1,098
	2,960	3,737
Portion classified as current liabilities	**(472)**	(529)
Non-current portion	**2,488**	3,208

24. INTEREST-BEARING BANK LOANS (continued)

The Group's banking facilities were secured by:

(i) personal guarantees executed by Mr Cheung. The guarantees are being replaced by a corporate guarantee provided by the Company after the Listing on 6 March 2002; and

(ii) first legal charges on certain of the Group's land and buildings situated in Hong Kong with a net book value of approximately HK$2,630,000 (2000: HK$3,820,000) (note 15).

25. FINANCE LEASE PAYABLES

The Group's lease payables related to motor vehicles and were fully settled during the year.

Group	**Minimum lease payments 2001 HK$'000**	Minimum lease payments 2000 HK$'000	**Present value of minimum lease payments 2001 HK$'000**	Present value of minimum lease payments 2000 HK$'000
Amounts repayable within one year	**–**	115	**–**	109
Total minimum finance lease payments	**–**	115	**–**	109
Future finance charges	**–**	(6)		
Total net finance lease payables	**–**	109		
Portion classified as current liabilities	**–**	(109)		
Non-current portion	**–**	–		

26. DEFERRED TAX

	Group **2001 HK$'000**	2000 HK$'000
Balance at beginning of year	**1,330**	670
Charge for the year (note 11)	**656**	660
Balance at end of year	**1,986**	1,330

The revaluation of the Group's leasehold land and buildings and land use rights does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

27. SHARE CAPITAL

	Company 2001 HK$'000
Authorised:	
1,000,000 ordinary shares of HK$0.10 each	100
Issued:	
1,000,000 ordinary shares of HK$0.10 each nil paid	–

Shares

The following changes in the Company's authorised and issued share capital took place during the period from 22 August 2001 (date of incorporation) to the date of approval of these financial statements:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each;

(ii) On 11 September 2001, 1,000,000 ordinary shares were allotted nil paid to Great Victory;

(iii) On 5 February 2002, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 999,000,000 ordinary shares of HK$0.10 each;

(iv) On 5 February 2002, as part of the Reorganisation as set out in note 1 to the financial statements, the Company (i) issued an aggregate of 1,000,000 ordinary shares of HK$0.10 each credited as fully paid and (ii) credited the existing 1,000,000 shares issued nil paid on 11 September 2001 held by Great Victory as fully paid up at par, in consideration for the acquisition of the entire issued share capital of Sewco BVI;

(v) On 5 February 2002, a total of 318,000,000 ordinary shares of HK$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on 5 February 2002 by way of the capitalisation of the sum of HK$31,800,000 standing to the credit of the share premium account of the Company ("Capitalisation Issue"), conditional on the share premium account of the Company being credited as a result of the new shares issued to the public as detailed in (vi) below;

(vi) On 6 March 2002, 80,000,000 ordinary shares of HK$0.10 each were issued to the public at HK$0.55 each for a total cash consideration, before the related issuance expenses, of HK$44,000,000; and

(vii) On 15 March 2002, 2,000 shares of HK$0.10 each were issued for cash at a subscription price of HK$0.70 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK$1,400.

27. SHARE CAPITAL (continued)

A summary of the transactions with reference to the above movements of the Company's ordinary share capital is as follows:

	Notes	Number of shares	Carrying amount HK$'000
Shares allotted and issued nil paid on 11 September 2001	(ii)	1,000,000	–
Shares issued as part of the consideration for acquisition of the entire issued share capital of Sewco BVI	(iv)	1,000,000	100
1,000,000 nil paid shares credited as fully paid as the remaining consideration for acquisition of the entire issued share capital of Sewco BVI	(iv)	–	100
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the new issue of shares to the public	(v)	318,000,000	–
Pro forma share capital at 31 December 2001 and 2000		320,000,000	200
New issue on public listing	(vi)	80,000,000	8,000
Capitalisation of share premium account as set out above	(v)	–	31,800
Warrants exercised	(vii)	2,000	1
		400,002,000	40,001

Share options

The Company operates a share option scheme (the "Scheme") which became effective subsequent to the balance sheet date on 5 February 2002. Further details of the Scheme are set out under the heading "Share option scheme" in the Report of the Directors on pages 22 and 23 of the Annual Report.

Up to the date of approval of these financial statements, no options have been granted under the Scheme.

27. SHARE CAPITAL (continued)

Warrants

On 5 February 2002, warrants were authorised to be issued by the Company by way of a bonus issue to the successful subscribers and placees of the Company's shares in connection with the Company's initial public offering, resulting in 80,000,000 warrants being issued on 6 March 2002. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.70 per share, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

During the period from 6 March 2002 to the date of approval of these financial statements, 2,000 warrants were exercised for 2,000 shares of HK$0.10 each at HK$0.70 per share. At the date of these financial statements, the Company had 79,998,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 79,998,000 additional shares of HK$0.10 each, for gross proceeds of HK$55,999,000.

28. RESERVES

Group

	Contributed surplus (Note 1)	Fixed assets revaluation reserve	Reserve funds (Note 2)	Exchange fluctuation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2000	2,220	–	747	267	131,960	135,194
Exchange realignments	–	–	–	178	–	178
Transfer	–	–	222	–	(222)	–
Net profit for the year	–	–	–	–	30,247	30,247
Dividends	–	–	–	–	(50,405)	(50,405)
At 31 December 2000 and 1 January 2001	2,220	–	969	445	111,580	115,214
Exchange realignments	–	–	–	(100)	–	(100)
Surplus on revaluation	–	28,789	–	–	–	28,789
Transfer	–	–	301	–	(301)	–
Net profit for the year	–	–	–	–	37,742	37,742
Dividends	–	–	–	–	(30,000)	(30,000)
At 31 December 2001	**2,220**	**28,789**	**1,270**	**345**	**119,021**	**151,645**

Notes:

(1) The contributed surplus of the Group at 1 January 2000 represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the Reorganisation and the nominal value of the share capital of the Company issued in exchange therefor.

(2) In accordance with the relevant PRC regulations applicable to wholly foreign-owned enterprises, the Company's PRC subsidiary is required to appropriate an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

29. NOTES TO THE PRO FORMA COMBINED CASH FLOW STATEMENT

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

	2001 HK$'000	2000 HK$'000
Profit from operating activities	**40,325**	35,379
Interest income	**(1,204)**	(2,035)
Depreciation	**6,244**	5,823
Decrease in fair value of short term investments	**188**	2,180
Loss/(gain) on disposal of short term investments	**34**	(341)
Dividend income from short term investments	**–**	(18)
Amortisation of land use rights	**243**	246
Loss/(gain) on disposal of fixed assets	**(15)**	511
Increase in inventories	**(10,571)**	(6,353)
Increase in trade receivables	**(30,117)**	(4,338)
Increase in prepayments, deposits and other receivables	**(3,648)**	(102)
Decrease/(increase) in amounts due from related companies	**246**	(5)
Decrease/(increase) in an amount due from a director	**(2,735)**	2,218
Increase in trade payables	**14,469**	12,974
Increase/(decrease) in other payables and accruals	**2,199**	(1,033)
Exchange adjustments	**(86)**	24
Net cash inflow from operating activities	**15,572**	45,130

(b) Analysis of changes in financing during the year

	Bank loans HK$'000	Finance lease payables HK$'000
Balance at 1 January 2000	4,222	666
Cash outflow from financing activities, net	(485)	(557)
Balance at 31 December 2000 and 1 January 2001	3,737	109
Cash outflow from financing activities, net	(777)	(109)
Balance at 31 December 2001	**2,960**	**–**

(c) Major non-cash transactions

A dividend of HK$3,405,000 payable to Mr Cheung as at 31 December 2000 was transferred to a current account with Mr Cheung during the year.

30. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries which were acquired by the Company pursuant to the Reorganisation subsequent to the balance sheet date, on 5 February 2002, are set out below:

Name	Place and date of incorporation or registration/ operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Sewco (B.V.I.) Limited	British Virgin Islands 10 August 2001	Ordinary US$401	100	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong 15 August 1980	Ordinary HK$200 Non-voting deferred HK$420,000	–	100	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong 15 January 1991	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100	Manufacturing and trading of toy products
Grampian Investments Trading Limited	British Virgin Islands 2 January 1996	Ordinary US$2	–	100	Dormant
Quemoy Enterprises Limited	British Virgin Islands 2 January 1996	Ordinary US$2	–	100	Dormant
Zhongshan Sewco Toys & Novelty Limited *	PRC 21 September 1991	Paid-up registered HK$43,880,000	–	100	Manufacturing of toy products

* Wholly foreign-owned enterprise registered in the PRC

Further details of the Reorganisation are set out in note 1 to the financial statements and in the Prospectus of the Company dated 22 February 2002.

31. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms from two months to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK$'000	HK$'000
Within one year	**1,709**	2,555
In the second to fifth years, inclusive	**554**	2,261
	2,263	4,816

At the balance sheet date, the Company had no operating lease arrangements.

33. COMMITMENTS

Other than the operating lease commitments detailed in note 32 above, at the balance sheet date, neither the Group, nor the Company had any significant commitments.

34. POST BALANCE SHEET EVENTS

In addition to the matters set out in note 27 to the financial statements, subsequent to the balance sheet date, the following significant post balance sheet events took place:

(a) on 18 April 2002, the directors recommended a special dividend of HK2 cents per share in respect of the year ending 31 December 2002. The proposed special dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting; and

34. POST BALANCE SHEET EVENTS (continued)

(b) the shares of the Company were listed on the Stock Exchange on 6 March 2002 as set out in note 27 (vi).

The unaudited pro forma combined balance sheet of the Group as at 6 March 2002, after taking into account of the issue of new shares upon the Listing on 6 March 2002, is as follows:

	Pro forma combined balance sheet as at 31 December, 2001 HK$'000	Net proceeds on issue of new shares on Listing HK$'000	Pro forma combined balance sheet as at 6 March, 2002 HK$'000
Non-current assets	95,498		95,498
Current assets	135,684	36,000	171,684
Current liabilities	(74,863)		(74,863)
Net current assets	60,821		96,821
Total assets less current liabilities	156,319		192,319
Non-current liabilities	(4,474)		(4,474)
	151,845		187,845
Capital and reserves	151,845	36,000	187,845

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2001 HK$'000**	2000 HK$'000
Subcontracting expenses paid to a subcontractor which was beneficially owned by a former director of certain subsidiaries	(i)	**–**	11,228
Rental expenses paid to a subcontractor which was beneficially owned by a former director of certain subsidiaries	(ii)	**–**	90
Rental expenses paid to a director	(iii)	**204**	204
Rental expenses paid to a director's associate	(iv)	**432**	432

35. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The subcontracting expenses were charged at cost plus a percentage mark-up. Subsequent to the resignation of the director on 28 March 2000, the subcontracting expenses paid or payable to the subcontractor were no longer classified as related party transactions.

(ii) The rental expenses related to a property leased by the Group as its staff quarters. The rental was determined between both parties with reference to the then prevailing market conditions. The lease was terminated in April 2000 upon the resignation of the director on 28 March 2000.

(iii) The rental expenses were paid to Ms Cheung Man, Catherine, a director of the Company, for leasing a property as staff quarter by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

(iv) The rental expenses were paid to Ms Fung Wai Chi, Philomena, the wife of Mr Cheung, a director of the Company, for leasing a property as staff quarter by the Group. The rental was determined between both parties with reference to the then prevailing market conditions.

Details of the Group's balances with related companies and directors as at the balance sheet date are included in notes 20, 21 and 23 to the financial statements.

(b) Certain of the Group's credit facilities are secured by personal guarantees from Mr Cheung, further details of which are included in note 24 to the financial statements.

(c) The Group received a guarantee from Mr Cheung in respect of a loan granted to an employee of the Group, further details of which are included in note 16 to the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2002.