1. GROUP REORGANISATION

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 5 February 2002, pursuant to a reorganisation arrangement (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"), 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 17 to the financial statements and became 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").

The shares of the Company were listed on the Stock Exchange on 6 March 2002.

2. CORPORATE INFORMATION

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

During the year, the Group was involved in the principal activities of manufacturing and trading of hard and stuffed toys.

In the opinion of the directors, the ultimate holding company of the Company is Great Victory International Inc. ("Great Victory"), a company incorporated in the British Virgin Islands.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

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

- SSAP 1 (Revised) "Presentation of financial statements"
- SSAP 11 (Revised) "Foreign currency translation"
- SSAP 15 (Revised) "Cash flow statements"
- SSAP 34 "Employee benefits"

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the contents thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flows statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas previously, they were translated at the applicable exchange rates ruling at the balance sheet date. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 4 and note 29 (a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits except that additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to those required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. BASIS OF PRESENTATION AND 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, 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.

Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Reorganisation completed on 5 February 2002. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition, except for two subsidiaries which were acquired and disposed of during the year and subsequent to the completion of the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2001 and 2002 include the results of the Company and its subsidiaries as if the group structure, which comprises the Company and all of the subsidiaries of the Company comprising the Group pursuant to the Reorganisation, had been in existence throughout the years ended 31 December 2001 and 2002 and since 1 January 2001 or since their respective dates of incorporation, where this is a shorter period, except that results of the aforesaid subsidiaries acquired and disposed of during the year were consolidated from their effective date of acquisition to their effective date of disposal. The comparative balance sheet as at 31 December 2001 has been prepared on the basis that the existing Group had been in place at that date.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present fairly the results and the state of affairs of the Group as a whole.

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.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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 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.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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 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.

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 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.

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 profit and loss account. Any subsequent revaluation surplus is credited to the 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 retained earnings as a movement in reserves.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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
Leasehold improvement	10%
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 profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

Leased assets

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 profit and loss account on the straight-line basis over the lease terms.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including time deposits, 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 profit and loss account.

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.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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) mould income represents net income arising from the manufacturing of moulds for customers. It is recognised upon the completion of the production of moulds; and

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the 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 exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flow. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 29(a) to the financial statements.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, at the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

4. BASIS OF PRESENTATION AND 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 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.

The 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. The contributions are charged to the profit and loss account, as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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 segment comprises general corporate income and expense items.

In determining the Group's geographical segments, revenues 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 2002 and 2001, and certain asset and liability information regarding business segments as at 31 December 2002 and 2001.

Group

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	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	**307,842**	277,611	**138,948**	85,588	**-**	-	**-**	-	**446,790**	363,199
Intersegment sales	**-**	-	**1,883**	3,179	**-**	-	**(1,883)**	(3,179)	**-**	-
Other revenue from external sources	**1,655**	1,843	**234**	195	**601**	(222)	**-**	-	**2,490**	1,816
Intersegment other revenue	**961**	5,232	**-**	-	**-**	-	**(961)**	(5,232)	**-**	-
Total	**310,458**	284,686	**141,065**	88,962	**601**	(222)	**(2,844)**	(8,411)	**449,280**	365,015
Segment results	**35,378**	32,100	**8,586**	7,243	**591**	(222)	**-**	-	**44,555**	39,121
Interest income									**1,011**	1,204
Finance costs									**(35)**	(216)
Profit before tax									**45,531**	40,109
Tax									**(5,559)**	(2,367)
Profit before minority interests									**39,972**	37,742
Minority interests									**896**	-
Net profit from ordinary activities attributable to shareholders									**40,868**	37,742
Segment assets	**247,829**	199,529	**46,341**	41,991	**4,968**	11,063	**(21,440)**	(21,401)	**277,698**	231,182
Segment liabilities	**71,822**	70,498	**2,900**	14,252	**7,518**	15,986	**(21,440)**	(21,399)	**60,800**	79,337
Other segment information:										
Capital expenditure	**12,030**	992	**58**	319	**-**	-	**-**	-	**12,088**	1,311
Loss on disposal of subsidiaries	**4,266**	-	**-**	-	**-**	-	**-**	-	**4,266**	-
Amortisation of goodwill	**-**	-	**-**	-	**360**	-	**-**	-	**360**	-
Depreciation	**5,860**	6,080	**319**	407	**-**	-	**-**	-	**6,179**	6,487
Surplus on revaluation of leasehold land and buildings, net	**316**	18,315	**-**	-	**-**	-	**-**	-	**316**	18,315
Surplus on revaluation of land use rights	**226**	10,474	**-**	-	**-**	-	**-**	-	**226**	10,474
Other non-cash expenses	**369**	412	**102**	327	**-**	-	**-**	-	**471**	739

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue information regarding geographical segments for the years ended 31 December 2002 and 2001, and asset and expenditure information for the Group's geographical segments as at 31 December 2002 and 2001.

Group

	USA/ Canada		Japan		Hong Kong and PRC		Corporate and eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	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	**385,331**	306,576	**61,459**	56,623	**-**	–	**-**	–	**446,790**	363,199
Other revenue	**326**	747	**917**	785	**646**	506	**601**	(222)	**2,490**	1,816
Total	**385,657**	307,323	**62,376**	57,408	**646**	506	**601**	(222)	**449,280**	365,015
Other segment information:										
Segment assets	**-**	–	**-**	–	**272,730**	220,119	**4,968**	11,063	**277,698**	231,182
Capital expenditure	**-**	–	**-**	–	**12,088**	1,311	**-**	–	**12,088**	1,311

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:

	2002	2001
	HK$'000	HK$'000
Turnover		
Sale of goods:		
Hard toys	**307,842**	277,611
Stuffed toys	**138,948**	85,588
	446,790	363,199
Other revenue		
Mould income	**1,243**	1,532
Interest income	**1,011**	1,204
Sundry income	**646**	386
	2,900	3,122
Gains/(losses)		
Gain on dissolution of subsidiaries	**601**	–
Decrease in fair value of short term investments	**–**	(188)
Loss on disposal of short term investments	**–**	(34)
Write-back of provision for doubtful debts	**–**	120
	601	(102)
Total other revenue and gains, net	**3,501**	3,020

7. PROFIT FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000
Cost of inventories sold*	**343,329**	284,109
Provision for obsolete inventories	**471**	739
Depreciation*	**6,179**	6,487
Amortisation of goodwill**	**360**	–
Minimum lease payments under operating leases in respect of land and buildings	**3,752**	2,111
Auditors' remuneration	**680**	600
Staff costs (excluding directors' remuneration– note 9):		
Wages and salaries	**79,056**	50,552
Other staff benefits	**590**	1,547
Gross pension scheme contributions	**372**	358
Less: Forfeited contributions***	**–**	–
Pension scheme contributions, net	**372**	358
Total staff costs	**80,018**	52,457
Loss on disposal of subsidiaries**	**4,266**	–
Loss/(gain) on disposal of fixed assets, net**	**898**	(15)
Revaluation deficit of fixed assets**	**409**	–
Foreign exchange losses/(gains), net	**(1,761)**	142

* Depreciation charge of HK$4,356,000 was also included in 'Cost of inventories sold'.

** These items are included in "Other operating income/(expenses)" on the face of the profit and loss account.

*** At 31 December 2002, the Group had no material forfeited contributions available to reduce its contribution to the pension scheme in future years (2001: Nil).

8. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest expense on:		
Bank loans, bank overdrafts and other loans wholly repayable within five years	**35**	210
Finance leases	**–**	6
	35	216

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Fees	**100**	–
Other emoluments:		
Salaries, benefits in kind and other allowances	**4,927**	4,762
Discretionary bonus	**2,452**	1,400
Pension scheme contributions	**125**	141
	7,604	6,303

The directors' fees of HK$100,000 (2001: Nil) are payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

9. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2002	2001
Nil– HK$1,000,000	**3**	3
HK$1,000,001– HK$1,500,000	**3**	1
HK$2,500,001– HK$3,000,000	**1**	1
	7	5

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 (2001: 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% (2001: 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.

	Group	
	2002	2001
	HK$'000	HK$'000
Hong Kong	**5,072**	4,350
Elsewhere	**487**	284
Overprovision in prior years	**–**	(2,923)
Deferred tax (note 26)	**–**	656
Tax charge for the year	**5,559**	2,367

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK$21,370,000 (2001: Nil).

13. DIVIDENDS

	2002	2001
	HK$'000	HK$'000
Special paid– HK2 cents per ordinary share	**8,000**	–
Interim paid– HK1.2 cents per ordinary share	**4,800**	–
Proposed final– HK2 cents per ordinary share	**8,000**	–
Dividends declared and paid by subsidiaries	**–**	30,000
	20,800	30,000

The dividends with an aggregate amount of HK$30,000,000 were declared and paid by certain subsidiaries of the Company during the year ended 31 December 2001 to their then shareholders prior to the Reorganisation as detailed in note 1 to the financial statements.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK$40,868,000 (2001: HK$37,742,000) and the weighted average of 385,974,000 shares (2001: 320,000,000 shares) of the Company, calculated based on the assumption that the Reorganisation as further described in note 1 to the financial statements had been completed on 1 January 2001 and 320,000,000 shares were deemed to be in issue throughout the year ended 31 December 2001 as further detailed in note 27 to the financial statements.

Diluted earnings per share amount was not presented for the year ended 31 December 2001 as there were no dilutive potential ordinary shares outstanding during the year ended 31 December 2001. As the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the year ended 31 December 2002, there was no dilutive effect on the basic earnings per share for the year ended 31 December 2002.

15. FIXED ASSETS

Group

	Land use rights	Leasehold land and buildings	Leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:								
At beginning of year	21,504	49,809	–	6,363	5,328	37,861	–	120,865
Additions	–	–	853	641	984	3,424	6,186	12,088
Acquisition of subsidiaries (note 29 (b))	–	–	–	167	–	–	–	167
Disposals	–	(1,037)	–	(386)	(369)	(865)	–	(2,657)
Disposal of subsidiaries (note 29 (c))	–	–	–	(281)	–	–	–	(281)
Revaluation (note 28)	(246)	(268)	–	–	–	–	–	(514)
Exchange realignment	1	2	–	–	–	4	–	7
At 31 December 2002	**21,259**	**48,506**	**853**	**6,504**	**5,943**	**40,424**	**6,186**	**129,675**
Analysis of cost or valuation:								
At cost	–	–	853	6,504	5,943	40,424	6,186	59,910
At 2002 valuation	21,259	48,506	–	–	–	–	–	69,765
	21,259	48,506	853	6,504	5,943	40,424	6,186	129,675
Accumulated depreciation, amortisation and impairment:								
At beginning of year	–	–	–	3,918	4,276	17,773	–	25,967
Provided during the year	472	1,001	85	816	445	3,360	–	6,179
Disposals	–	(418)	–	(327)	(353)	(638)	–	(1,736)
Disposal of subsidiaries (note 29 (c))	–	–	–	(3)	–	–	–	(3)
Written back on revaluation (note 28)	(472)	(584)	–	–	–	–	–	(1,056)
Exchange realignment	–	1	–	–	–	2	–	3
At 31 December 2002	**-**	**-**	**85**	**4,404**	**4,368**	**20,497**	**-**	**29,354**
Net book value:								
At 31 December 2002	**21,259**	**48,506**	**768**	**2,100**	**1,575**	**19,927**	**6,186**	**100,321**
At 31 December 2001	21,504	49,809	–	2,445	1,052	20,088	–	94,898

15. FIXED ASSETS (continued)

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	7,614	–	7,614
Medium term leases	764	40,128	40,892
	8,378	40,128	48,506

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$8,378,000 (2001: HK$9,080,000), based on their existing use. The Group's leasehold 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$40,128,000 (2001: HK$40,729,000) and HK$21,259,000 (2001: HK$21,504,000), respectively, using the depreciated replacement cost method. A revaluation surplus of HK$951,000 (2001: HK$28,789,000) and revaluation deficit of HK$409,000 (2001: Nil), resulting from the above valuations and after taking into account the write-back of the accumulated depreciation, have been credited to the Group's revaluation reserve (note 28) and charged to the profit and loss account, respectively.

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$8,378,000 (2001: HK$8,925,000). Had the Group's leasehold land and buildings and land use rights in PRC been carried at historical cost less accumulated depreciation/amortisation and impairment losses, their carrying amounts would have been HK$22,101,000 (2001: HK$22,569,000) and HK$10,790,000 (2001: HK$11,030,000), respectively.

Certain of the Group's leasehold land and buildings situated in Hong Kong with an aggregate value of HK$2,630,000 as at 31 December 2001 had been pledged to a bank in Hong Kong as security in respect of banking facilities of approximately HK$24,960,000 granted to the Group in 2001. Such pledges were released during the year. As at 31 December 2001, such facilities were utilised to the extent of HK$2,960,000 (note 25).

16. GOODWILL

	Group HK$'000
Cost:	
At beginning of year	–
Acquisition of subsidiaries (note 29(b))	3,085
Disposal of subsidiaries	(3,085)
At 31 December 2002	**–**
Accumulated amortisation:	
At beginning of year	–
Provided during the year	360
Disposal of subsidiaries	(360)
At 31 December 2002	**–**
Net book value:	
At 31 December 2002	**–**
At 31 December 2001	–

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**156,726**	–
Due from subsidiaries	**8,502**	–
	165,228	–

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid up share/ registered capital	Percentage of equity attributable to the Company 2002 %	2001 %	Principal activities
Sewco BVI	British Virgin Islands	Ordinary US$401	**100** *	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	**100** **	–	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	**100** **	–	Manufacturing and trading of toy products
Zhongshan Sewco Toys & Novelty Limited#	PRC	Paid-up registered HK$48,000,000	**100** **	–	Manufacturing of toy products
Grampian Investments Trading Limited##	British Virgin Islands	Ordinary US$2	**–**	–	Dormant
Quemoy Enterprises Limited##	British Virgin Islands	Ordinary US$2	**–**	–	Dormant

* Directly held by the Company
** Indirectly held by the Company
# Wholly foreign-owned enterprise registered in the PRC
These companies were dissolved during the year

17. INTERESTS IN SUBSIDIARIES (continued)

During the year, the Group acquired 51% interests in two companies and subsequently disposed of its interests in both companies during the year (note 4). Further details of the acquisition and disposal of these companies during the year are included in notes 29(b) and 29(c) to the financial statements, respectively.

18. LOAN RECEIVABLE

The balance represents an advance by a subsidiary of the Company 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. During the year, the loan interest rate has been changed from 6.667% per annum to Hong Kong dollars prime rate minus 2.25% per annum and the maturity date of the loan has been extended from November 2002 to April 2004. Accordingly, the loan receivable has been reclassified as a non-current asset as at 31 December 2002.

19. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**24,123**	24,446
Work in progress	**19,613**	18,720
Finished goods	**13,718**	9,273
	57,454	52,439

20. 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	
	2002	2001
	HK$'000	HK$'000
Current to 30 days	**15,490**	41,486
31 to 90 days	**6,964**	9,748
	22,454	51,234

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

21. DUE FROM/(TO) RELATED COMPANIES

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

Group	31 December 2002 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2002 HK$'000
Evergain Development Limited	**4**	4	2
Sewco Toys (China) Limited	**14**	14	–
	18		2

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 from a related company of the Company represents the balance due from Sewco Toys (China) Limited. The maximum amount outstanding during the year is HK$14,000.

The balance due to a related company of the Company as at 31 December 2001 represented the 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.

22. DUE FROM A DIRECTOR

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

Group

Name	31 December 2002 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2002 HK$'000
Mr Cheung	**-**	633	51

The amount due from the director was unsecured, interest-free and was repaid during the year.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**24,577**	20,252	**1,513**	–
Time deposits	**62,452**	–	**34,372**	–
Cash and cash equivalents	**87,029**	20,252	**35,885**	–

24. TRADE PAYABLES

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

	Group	
	2002	2001
	HK$'000	HK$'000
Current to 30 days	**22,924**	23,123
31 to 90 days	**14,917**	26,095
Over 90 days	**144**	4,260
	37,985	53,478

25. INTEREST-BEARING BANK LOANS

	Group	
	2002	2001
	HK$'000	HK$'000
Bank loans– secured (note 15)	**–**	2,960
Bank loans repayable:		
Within one year or on demand	**–**	472
In the second year	**–**	489
In the third to fifth years, inclusive	**–**	1,577
Beyond five years	**–**	422
	–	2,960
Portion classified as current liabilities	**–**	(472)
Non-current portion	**–**	2,488

25. INTEREST-BEARING BANK LOANS (continued)

The Group's bank loans as at 31 December 2001 were secured by personal guarantees executed by Mr Cheung and a first legal charge on certain of the Group's land and buildings situated in Hong Kong with a net book value as at 31 December 2001 of approximately HK$2,630,000.

26. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	HK$'000
Balance at beginning of year	**1,986**	1,330
Charge for the year (note 11)	**–**	656
Balance at end of year	**1,986**	1,986

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. The principal components of the Group's deferred tax liabilities calculated at 16% (2001:16%) on the cumulative timing differences at the balance sheet date represent accelerated depreciation allowances.

27. SHARE CAPITAL

	Company	
	2002	2001
	HK$'000	HK$'000
Authorised:		
1,000,000,000 (2001: 1,000,000) ordinary shares of HK$0.10 each	**100,000**	100
Issued:		
400,002,000 ordinary shares of HK$0.10 each fully paid (2001: 1,000,000 ordinary shares of HK$0.10 each nil paid)	**40,001**	–

27. SHARE CAPITAL (continued)

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 31 December 2002:

(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 then 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 issue 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)

Shares (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	Issued capital HK$'000	Share premium account HK$'000	Total 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	–	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	–	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 balance at 31 December 2001		320,000,000	200	–	200
New issue on public listing	(vi)	80,000,000	8,000	36,000	44,000
Capitalisation of share premium account as set out above	(v)	–	31,800	(31,800)	–
Warrants exercised	(vii)	2,000	1	1	2
		80,002,000	39,801	4,201	44,002
Share issue expenses		–	–	(4,201)	(4,201)
Balance at 31 December 2002		400,002,000	40,001	–	40,001

27. SHARE CAPITAL (continued)

Shares (continued)

For the purpose of the consolidated balance sheet, the comparative amount of the issued share capital at 31 December 2001 comprised the pro forma issued share capital of HK$200,000 as set out above.

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive and non-executive directors, any discretionary object of a grantee which is a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholder of the Company on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of ordinary shares in respect of which options may be granted at any time under the Scheme and any other share option schemes of the Company cannot exceed 30% of the issued share capital of the Company from time to time. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 40,000,000 shares, i.e. 10% of the ordinary shares in issue on 6 March 2002. The Company may seek approval of its shareholders in a general meeting to refresh the 10% limit provided that the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and under any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of shares issuable under share options granted to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12-month period up to and including the date of such further grant in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in a general meeting.

27. SHARE CAPITAL (continued)

Share options (continued)

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted and expires not later than the 10th anniversary of that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the share options which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant.

No share options have been granted under the Scheme for the year.

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 balance sheet date, 2,000 warrants were exercised for 2,000 shares of HK$0.10 each at HK$0.70 per share. At 31 December 2002, 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 approximately HK$55,999,000.

28. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus (Note 1) HK$'000	Fixed assets revaluation reserve HK$'000	Reserve fund (Note 3) HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2001		–	2,220	–	969	445	111,580	115,214
Exchange realignment		–	–	–	–	(100)	–	(100)
Surplus on revaluation		–	–	28,789	–	–	–	28,789
Transfer		–	–	–	301	–	(301)	–
Net profit for the year		–	–	–	–	–	37,742	37,742
Dividends	13	–	–	–	–	–	(30,000)	(30,000)
At 31 December 2001 and at 1 January 2002		–	2,220	28,789	1,270	345	119,021	151,645
Issue of shares	27	36,001	–	–	–	–	–	36,001
Capitalisation issue of shares	27	(31,800)	–	–	–	–	–	(31,800)
Share issue expenses		(4,201)	(2,220)	–	–	–	(1,544)	(7,965)
Exchange realignment		–	–	–	–	(3)	–	(3)
Surplus on revaluation		–	–	951	–	–	–	951
Revaluation reserve released		–	–	(629)	–	–	629	–
Transfer		–	–	–	527	–	(527)	–
Net profit for the year		–	–	–	–	–	40,868	40,868
Special dividend	13	–	–	–	–	–	(8,000)	(8,000)
Interim 2002 dividend	13	–	–	–	–	–	(4,800)	(4,800)
Proposed final 2002 dividend	13	–	–	–	–	–	(8,000)	(8,000)
At 31 December 2002		**–**	**–**	**29,111**	**1,797**	**342**	**137,647**	**168,897**

28. RESERVES (continued)

Company

	Notes	Share premium account HK$'000	Contributed surplus (Note 2) HK$'000	Retained profits HK$'000	Total HK$'000
At 22 August 2001 (date of incorporation), at 31 December 2001 and at 1 January 2002		–	–	–	–
Arising from acquisition of subsidiaries		–	156,526	–	156,526
Issue of shares	27	36,001	–	–	36,001
Capitalisation issue of shares	27	(31,800)	–	–	(31,800)
Share issue expenses		(4,201)	(3,764)	–	(7,965)
Net profit for the year		–	–	21,370	21,370
Special dividend	13	–	–	(8,000)	(8,000)
Interim 2002 dividend	13	–	–	(4,800)	(4,800)
Proposed final 2002 dividend	13	–	–	(8,000)	(8,000)
At 31 December 2002		**–**	**152,762**	**570**	**153,332**

Notes:

(1) The contributed surplus of the Group at 1 January 2001 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) The contributed surplus of the Company arose as a result of the Reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

(3) 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 CONSOLIDATED CASH FLOW STATEMENT

(a) Changes to the layout of the consolidated cash flow statements

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented cash flows under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

(b) Acquisition of subsidiaries

	2002 HK$'000
Net assets acquired:	
Fixed assets	**167**
Cash and bank balances	**1,503**
Other receivables	**1,592**
Trade and other payables	**(1,434)**
Minority interests	**(896)**
	932
Goodwill on acquisition (note 16)	**3,085**
	4,017
Satisfied by:	
Cash	**4,017**

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	2002 HK$'000
Cash consideration	(4,017)
Cash and bank balances acquired	1,503
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,514)

On 17 May 2002, pursuant to a subscription agreement entered into between Sewco BVI and an independent third party (the "Vendor"), the Group acquired 51% equity interests in two companies at an aggregate cash consideration of US$500,000. These subsidiaries are engaged in investment holding and the trading of toys products. These subsidiaries were subsequently disposed of on 20 December 2002 (note 29(c)).

(c) Disposal of subsidiaries

	2002 HK$'000
Net assets disposed of:	
Fixed assets	278
Cash and bank balances	1,827
Other receivables	89
Trade and other payables	(653)
	1,541
Goodwill written off	2,725
Loss on disposal of subsidiaries	4,266
Satisfied by:	
Cash	–

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	2002 HK$'000
Cash consideration	–
Cash and bank balances disposed of	(1,827)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(1,827)

On 20 December 2002, the Group entered into a settlement agreement with the Vendor pursuant to which the Group agreed to dispose of its entire 51% equity interests in the two subsidiaries mentioned in note 29(b) to the Vendor at a cash consideration of HK$1.

Since their acquisition and up to the date of disposal, these subsidiaries had no significant impact in respect of the Group's consolidated cash flows, consolidated turnover and consolidated profit after tax for the year.

30. CONTINGENT LIABILITIES

Group

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$674,000 as at 31 December 2002, as further explained in note 3 to the financial statements. The contingent liability has arisen because at the balance sheet date a number of current employees have achieved the required number of years of service to the Group, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Company

At the balance sheet date, the Company had provided corporate guarantees of HK$60,500,000 (2001: Nil) to certain banks in respect of banking facilities granted to its subsidiaries. As at 31 December 2002, such banking facilities were not utilised.

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms from one year 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	
	2002	2001
	HK$'000	HK$'000
Within one year	**1,238**	1,709
In the second to fifth years, inclusive	**335**	554
	1,573	2,263

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

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments in respect of the construction of fixed assets at the balance sheet date:

	Group	
	2002	2001
	HK$'000	HK$'000
Capital commitments:		
Contracted for	**176**	–
Authorised, but not contracted for	**40,118**	–
	40,294	–

At the balance sheet date, the Company had no significant commitments.

33. POST BALANCE SHEET EVENT

On 11 March 2003, the Group entered into agreements with two independent third party companies (the "Investee Companies") to acquire 20% each of the equity interest in the Investee Companies at an aggregate subscription price of HK$6,240,001. These Investee Companies are engaged in the design, manufacturing and trading of toys and collectable printed products. The Investee Companies are companies controlled by common shareholders. The consideration was partially settled by setting off a loan of HK$2,500,000 made by the Group to one of the Investee Companies pursuant to a loan agreement entered into in January 2003.

As the aforesaid acquisitions were made on 11 March 2003, which was reasonably close to the date on which these financial statements were approved by the directors of the Company, the financial effects of the aforesaid agreements cannot be reliably estimated. Accordingly, no disclosure of the financial effects has been made in the financial statements.

34. RELATED PARTY TRANSACTIONS

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

		Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Rental expenses paid to a director	(i)	**204**	204
Rental expenses paid to a director's associate	(ii)	**432**	432

Notes:

(i) 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.

(ii) The rental expenses were paid to Ms Fung Wai Chi, Philomena, the wife of Mr Cheung, 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 a director as at the balance sheet date are included in notes 21 and 22 to the financial statements, respectively.

(b) 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 18 to the financial statements.

35. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2003.