Notes to Financial Statements

31 December 2003

1. 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 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. ("GVII"), a company incorporated in the British Virgin Islands.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income tax payable or recoverable in future periods, principally arising from taxable and deductible temporary differences (deferred tax). The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and

- a deferred tax liability has been recognised on the revaluation of the Group's land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in notes 4 and 25 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. The consolidated results of the Group for the year ended 31 December 2002 include the results of the Company and its subsidiaries as if the current group structure which had become effective after the group reorganisation on 5 February 2002 had been in existence since 1 January 2002. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates 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 consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five to eight years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and associates, 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.

3. 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 and construction in progress, 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 asset 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 asset revaluation reserve realised in respect of previous valuations is transferred to retained profits 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
Leasehold improvements	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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land use rights

Rights to the use of sites are stated at valuation and amortised on the 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 Mainland China upon its expiry, from 15 years to 50 years. As advised by the 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. When the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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 any 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 cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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 from the manufacturing of moulds for customers, upon the completion of the production; and

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

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section 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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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, to 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.

Notes to Financial Statements

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3. 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 subsidiary in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary in Mainland China is required to contribute a specific amount for the employees in Mainland China, 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.

4. PRIOR YEAR ADJUSTMENT

The adoption of the revised SSAP 12 (Revised) as detailed in note 2 represents a change in accounting policy, which has been applied retrospectively so that the comparative amounts presented have been restated to conform to the changed policy.

4. PRIOR YEAR ADJUSTMENT (continued)

This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2003 and 2002 by HK$2,000,000 and HK$1,890,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased by nil and HK$370,000, respectively, while the movements in consolidated fixed asset revaluation reserves for the years ended 31 December 2003 and 2002 have been decreased by HK$110,000 and nil, respectively. The consolidated retained profits as at 1 January 2003 and 2002 have been reduced by HK$370,000 and nil, respectively, while the consolidated fixed asset revaluation reserves as at 1 January 2003 and 2002 have both been reduced by HK$1,520,000, as detailed in note 27.

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 the 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.

Notes to Financial Statements

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5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue and profit information regarding business segments for the years ended 31 December 2003 and 2002, and certain asset and liability information regarding business segments as at 31 December 2003 and 2002.

Group

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue:										
Sales to external customers	**425,766**	307,842	**53,303**	138,948	**-**	–	**-**	–	**479,069**	446,790
Intersegment sales	**-**	–	**-**	1,883	**-**	–	**-**	(1,883)	**-**	–
Other revenue from external sources	**3,486**	1,655	**522**	234	**-**	601	**-**	–	**4,008**	2,490
Intersegment other revenue	**1,231**	961	**-**	–	**-**	–	**(1,231)**	(961)	**-**	–
Total	**430,483**	310,458	**53,825**	141,065	**-**	601	**(1,231)**	(2,844)	**483,077**	449,280
Segment results	**16,407**	35,378	**2,319**	8,586	**(146)**	591	**-**	–	**18,580**	44,555
Interest income									**605**	1,011
Finance costs									**(263)**	(35)
Share of profits and losses of associates									**675**	–
Amortisation of goodwill on acquisition of associates									**(671)**	–
Profit before tax									**18,926**	45,531
Tax									**631**	(5,929)
Profit before minority interests									**19,557**	39,602
Minority interests									**–**	896
Net profit from ordinary activities attributable to shareholders									**19,557**	40,498
Segment assets	**307,571**	247,829	**44,536**	46,341	**11,363**	4,968	**(25,276)**	(21,440)	**338,194**	277,698
Segment liabilities	**113,310**	73,712	**2,392**	2,900	**656**	7,518	**(25,276)**	(21,440)	**91,082**	62,690

Notes to Financial Statements

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Hard toys		Stuffed toys		Corporate		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Capital expenditure	**69,403**	12,030	**-**	58	**-**	–	**-**	–	**69,403**	12,088
Loss on disposal of subsidiaries	**-**	4,266	**-**	–	**-**	–	**-**	–	**-**	4,266
Amortisation of goodwill	**-**	–	**-**	–	**671**	360	**-**	–	**671**	360
Depreciation	**6,352**	5,860	**165**	319	**-**	–	**-**	–	**6,517**	6,179
Deficit on revaluation of leasehold land and buildings, net	**73**	316	**-**	–	**-**	–	**-**	–	**73**	316
Surplus on revaluation of land use rights	**(250)**	(226)	**-**	–	**-**	–	**-**	–	**(250)**	(226)
Other non-cash expenses	**992**	369	**258**	102	**-**	–	**-**	–	**1,250**	471

(b) Geographical segments

The following table presents revenue information regarding geographical segments for the years ended 31 December 2003 and 2002, and asset and expenditure information for the Group's geographical segments as at 31 December 2003 and 2002.

Group

	USA and Canada		Japan and others		Hong Kong and Mainland China		Corporate and eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	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	**393,866**	385,331	**71,201**	61,459	**14,002**	–	**-**	–	**479,069**	446,790
Other revenue	**1,905**	326	**1,051**	917	**1,052**	646	**-**	601	**4,008**	2,490
Total	**395,771**	385,657	**72,252**	62,376	**15,054**	646	**-**	601	**483,077**	449,280
Other segment information:										
Segment assets	**-**	–	**-**	–	**326,831**	272,730	**11,363**	4,968	**338,194**	277,698
Capital expenditure	**-**	–	**-**	–	**69,403**	12,088	**-**	–	**69,403**	12,088

Notes to Financial Statements

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6. TURNOVER, OTHER REVENUE AND GAIN, 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 gain is as follows:

	2003 HK$'000	2002 HK$'000
Turnover		
Sale of goods:		
Hard toys	**425,766**	307,842
Stuffed toys	**53,303**	138,948
	479,069	446,790
Other revenue		
Mould income	**2,956**	1,243
Interest income	**605**	1,011
Sundry income	**1,052**	646
	4,613	2,900
Gain		
Gain on dissolution of subsidiaries	**–**	601
Total other revenue and gain, net	**4,613**	3,501

7. PROFIT FROM OPERATING ACTIVITIES

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

	Note	2003 HK$'000	2002 HK$'000
Cost of inventories sold*		**408,048**	343,329
Provision for obsolete inventories		**1,250**	471
Depreciation*	*15*	**6,517**	6,179
Amortisation of goodwill**		**–**	360
Minimum lease payments under operating leases in respect of land and buildings		**3,141**	3,752
Auditors' remuneration		**650**	680
Staff costs (excluding directors' remuneration – *note 9*):			
Wages and salaries		**88,559**	79,056
Other staff benefits		**939**	590
Gross pension scheme contributions		**434**	372
Less: Forfeited contributions***		**–**	–
Pension scheme contributions, net		**434**	372
Total staff costs		**89,932**	80,018
Loss on disposal of subsidiaries**		**–**	4,266
Loss on disposal of fixed assets, net**		**4**	898
Revaluation deficit/(surplus) of fixed assets**		**(64)**	409
Foreign exchange gains, net		**(841)**	(1,761)

* A depreciation charge of HK$4,521,000 (2002: 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 consolidated profit and loss account.

*** At 31 December 2003, the Group had no material forfeited contributions available to reduce its contribution to the pension scheme in future years (2002: Nil).

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8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest expense on bank loans, bank overdrafts and other loans wholly repayable within five years	**263**	35

9. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK$'000	HK$'000
Fees	**100**	100
Other emoluments:		
Salaries, benefits in kind and other allowances	**4,666**	4,927
Discretionary bonuses	**1,520**	2,452
Pension scheme contributions	**120**	125
	6,406	7,604

The directors' fees of HK$100,000 (2002: HK$100,000) are payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**4**	3
HK$1,000,001 – HK$1,500,000	**2**	3
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**–**	1
	7	7

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 (2002: all) 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 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

The provision for income tax of a subsidiary operating in Mainland China 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	
	2003	2002
	HK$'000	HK$'000
		(Restated)
Current – Hong Kong	**160**	5,072
Current – Mainland China	**726**	487
Overprovision in prior years – Hong Kong	**(3,551)**	–
Deferred tax (*note 25*)	**2,034**	370
Total tax charge/(credit) for the year	**(631)**	5,929

Notes to Financial Statements

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11. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2003

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**12,902**		**6,024**		**18,926**	
Tax at the statutory tax rate	**2,258**	**17.5**	**1,446**	**24.0**	**3,704**	**19.6**
Lower tax rate for specific provinces or local authority	**–**	**–**	**(723)**	**(12.0)**	**(723)**	**(3.8)**
Effect on opening deferred tax of increase in rate	**221**	**1.7**	**–**	**–**	**221**	**1.2**
Adjustments in respect of current tax of previous periods	**(3,551)**	**(27.5)**	**–**	**–**	**(3,551)**	**(18.8)**
Income not subject to tax	**(339)**	**(2.6)**	**–**	**–**	**(339)**	**(1.8)**
Expenses not deductible for tax	**54**	**0.4**	**3**	**0.1**	**57**	**0.3**
Tax charge/(credit) at the Group's effective rate	**(1,357)**	**(10.5)**	**726**	**12.1**	**(631)**	**(3.3)**

Group – 2002

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	41,691		3,840		45,531	
Tax at the statutory tax rate	6,671	16.0	922	24.0	7,593	16.6
Lower tax rate for specific provinces or local authority	–	–	(461)	(12.0)	(461)	(1.0)
Income not subject to tax	(5,459)	(13.1)	–	–	(5,459)	(12.0)
Expenses not deductible for tax	4,230	10.2	26	0.7	4,256	9.4
Tax charge at the Group's effective rate	5,442	13.1	487	12.7	5,929	13.0

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12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$6,171,000 (2002: HK$21,370,000) *(note 27)*.

13. DIVIDENDS

	2003	2002
	HK$'000	HK$'000
Special dividend – Nil (2002: HK2 cents) per ordinary share	**–**	8,000
Interim dividend – HK1.2 cents (2002: HK1.2 cents) per ordinary share	**5,376**	4,800
Proposed final dividend – Nil (2002: HK2 cents) per ordinary share	**–**	8,000
	5,376	20,800

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$19,557,000 (2002: HK$40,498,000 (restated)) and the weighted average of 426,961,000 (2002: 385,974,000) ordinary shares in issue during the year.

Since the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the years ended 31 December 2003 and 2002, there were no dilutive potential ordinary shares outstanding during the years and therefore no diluted earnings per share amount was presented for both years.

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15. FIXED ASSETS

Group

	Land use rights HK$'000	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:								
At beginning of year	21,259	48,506	853	6,504	5,943	40,424	6,186	129,675
Additions	–	462	–	2,497	540	13,729	49,118	66,346
Disposals	–	–	–	(8)	–	–	–	(8)
Revaluation	(224)	(1,042)	–	–	–	–	–	(1,266)
Exchange realignments	(21)	(83)	–	(14)	(14)	(164)	–	(296)
At 31 December 2003	**21,014**	**47,843**	**853**	**8,979**	**6,469**	**53,989**	**55,304**	**194,451**
Analysis of cost or valuation:								
At cost	**–**	**–**	**853**	**8,979**	**6,469**	**53,989**	**55,304**	**125,594**
At 2003 valuation	**21,014**	**47,843**	**–**	**–**	**–**	**–**	**–**	**68,857**
	21,014	**47,843**	**853**	**8,979**	**6,469**	**53,989**	**55,304**	**194,451**
Accumulated depreciation, amortisation and impairment:								
At beginning of year	–	–	85	4,404	4,368	20,497	–	29,354
Provided during the year	477	997	85	731	370	3,857	–	6,517
Disposals	–	–	–	(4)	–	–	–	(4)
Written back on revaluation	(474)	(969)	–	–	–	–	–	(1,443)
Exchange realignments	(3)	(28)	–	(7)	(10)	(67)	–	(115)
At 31 December 2003	**–**	**–**	**170**	**5,124**	**4,728**	**24,287**	**–**	**34,309**
Net book value:								
At 31 December 2003	**21,014**	**47,843**	**683**	**3,855**	**1,741**	**29,702**	**55,304**	**160,142**
At 31 December 2002	21,259	48,506	768	2,100	1,575	19,927	6,186	100,321

15. FIXED ASSETS (continued)

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

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
At valuation:			
Long term leases	7,557	–	7,557
Medium term leases	758	39,528	40,286
	8,315	39,528	47,843

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$8,315,000 (2002: HK$8,378,000), based on their existing use. The Group's leasehold land and buildings and land use rights in Mainland China were also revalued individually at the balance sheet date by CMS at an aggregate value of HK$39,528,000 (2002: HK$40,128,000) and HK$21,014,000 (2002: HK$21,259,000), respectively, using the depreciated replacement cost method. The aggregate revaluation surplus of HK$177,000 (2002: HK$951,000) resulting from the above valuations and after taking into account the write-back of the accumulated depreciation, has been credited to the Group's other operating income and fixed asset revaluation reserve amounted to HK$64,000 *(note 7)* and HK$113,000 *(note 27),* 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$8,242,000 (2002: HK$8,378,000). Had the Group's leasehold land and buildings and land use rights in Mainland China been carried at historical cost less accumulated depreciation/amortisation and impairment losses, their carrying amounts would have been HK$22,023,000 (2002: HK$22,101,000) and HK$10,532,000 (2002: HK$10,790,000), respectively.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**156,726**	156,726
Due from subsidiaries	**38,952**	8,502
	195,678	165,228

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

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16. 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 *Direct* %	*Indirect* %	Principal activities
Sewco (B.V.I) Limited	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	Provision of agency services
Zhongshan Sewco Toys & Novelty Limited#	Mainland China	Paid-up registered HK$80,000,000	–	100	Manufacturing of toy products
Huge Returns Enterprises Inc.	British Virgin Islands	Ordinary US$1	–	100	Investment holding

\# Wholly foreign-owned enterprise registered in Mainland China

Notes to Financial Statements

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17. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets	**675**	–
Goodwill on acquisition	**5,769**	–
	6,444	–

Particulars of the associates are as follows:

Name	**Business structure**	**Place of incorporation and operations**	**Percentage of ownership interest attributable to the Group** ***Indirect***	**Principal activities**
Jasman Asia Limited	Corporate	Hong Kong	20%	Design and trading of toys
Jasman Inc.	Corporate	USA	20%	Trading of toys

The above associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

18. LOAN RECEIVABLE

The balance represents an advance made 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. The loan interest rate is charged at Hong Kong dollar prime rate minus 2.25% per annum. The outstanding loan balance is repayable by monthly installments of HK$15,000 by the borrower. Subsequent to the balance sheet date, an amount of HK$2,600,000 was repaid to the Group upon the disposal of the pledged property by the borrower.

Accordingly, an amount of HK$2,780,000 comprising the repayment subsequent to the balance sheet date and the installments receivable in the next twelve months is included under current assets and the balance of HK$1,295,000 is included under non-current assets as at 31 December 2003.

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19. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**25,655**	24,123
Work in progress	**17,602**	19,613
Finished goods	**15,943**	13,718
	59,200	57,454

20. TRADE RECEIVABLES

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

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 30 days	**27,735**	15,490
31 to 90 days	**8,887**	6,964
	36,622	22,454

The Group normally allows credit terms for established customers ranging from 14 to 60 days.

21. DUE FROM RELATED COMPANIES

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

	31 December 2003 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2003 HK$'000
Evergain Development Limited	**–**	4	4
Sewco Toys (China) Limited	**14**	14	14
	14		18

21. DUE FROM RELATED COMPANIES (continued)

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 was HK$14,000.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**16,789**	24,577	**983**	1,513
Time deposits	**39,560**	62,452	**23,470**	34,372
	56,349	87,029	**24,453**	35,885

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$446,000 (2002: HK$1,360,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE PAYABLES

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

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 30 days	**26,912**	22,924
31 to 90 days	**15,711**	14,917
Over 90 days	**129**	144
	42,752	37,985

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24. BANK LOANS

	Group	
	2003	2002
	HK$'000	HK$'000
Unsecured bank loans repayable:		
Within one year or on demand	**4,457**	–
In the second year	**5,943**	–
In the third to fifth years, inclusive	**9,600**	–
	20,000	–
Portion classified as current liabilities	**4,457**	–
Non-current portion	**15,543**	–

25. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities

Group		**2003**	
	Accelerated tax depreciation	**Revaluation of properties**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
At 1 January 2003			
As previously reported	1,986	–	1,986
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	370	1,520	1,890
As restated	2,356	1,520	3,876
Deferred tax charged to the profit and loss account during the year *(note 11)*	2,034	–	2,034
Deferred tax charged to revaluation reserve of HK$110,000 due to the effect of a change in tax rate *(note 27)*	–	110	110
At 31 December 2003	**4,390**	**1,630**	**6,020**

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25. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

Group	2002		
	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2002			
As previously reported	1,986	–	1,986
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	1,520	1,520
As restated	1,986	1,520	3,506
Deferred tax charged to profit and loss account (as restated) *(note 11)*	370	–	370
At 31 December 2002	2,356	1,520	3,876

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

There is no unrecognized deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2003 and 2002 by HK$2,000,000 and HK$1,890,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased by nil and HK$370,000, respectively, while the movements in consolidated fixed asset revaluation reserves for the years ended 31 December 2003 and 2002 have been decreased by HK$110,000 and nil, respectively. The consolidated retained profits as at 1 January 2003 and 2002 have been reduced by HK$370,000 and nil, respectively, while the consolidated fixed asset revaluation reserves as at 1 January 2003 and 2002 have both been reduced by HK$1,520,000, as detailed in note 27.

Notes to Financial Statements

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26. SHARE CAPITAL

Shares

	Company 2003 HK$'000	2002 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
448,002,000 (2002: 400,002,000) ordinary shares of HK$0.10 each	**44,801**	40,001

A summary of the movements of the Company's ordinary share capital is as follows:

	Number of shares	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Pro forma balance at 1 January 2002	320,000,000	200	–	200
New issue on public listing	80,000,000	8,000	36,000	44,000
Capitalisation of share premium account	–	31,800	(31,800)	–
Warrants exercised	2,000	1	1	2
Share issue expenses	–	–	(4,201)	(4,201)
Balance at 31 December 2002 and 1 January 2003	400,002,000	40,001	–	40,001
Issue of shares	48,000,000	4,800	22,560	27,360
Share issue expenses	–	–	(1,120)	(1,120)
Balance at 31 December 2003	**448,002,000**	**44,801**	**21,440**	**66,241**

26. SHARE CAPITAL (continued)

Shares (continued)

On 28 May 2003, an agreement was entered into by GVII, the controlling shareholder of the Company, and CLSA Limited, the placing agent appointed by GVII for a placement (the "Placing") of 48,000,000 then existing ordinary shares of HK$0.1 each in the Company (the "Placing Shares") at a price of HK$0.57 per share (the "Placing Price"). Pursuant to the said agreement, CLSA Limited has agreed to unconditionally place the Placing Shares to six or more independent professional and institutional investors (the "Placees") on a fully underwritten basis. The Placing Shares were fully placed by CLSA Limited to the Placees on 2 June 2003. CLSA Limited and the Placees (and their ultimate beneficial owners) are independent of and not connected with any of the directors, chief executive, or substantial shareholders of the Company or any of its subsidiaries, or an associate of any of them.

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 shareholders 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 currently available for issue 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, representing 10% of the ordinary shares of the Company in issue on 6 March 2002 and approximately 8.93% of the issued share capital of the Company as at the date of this annual report. 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.

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26. SHARE CAPITAL (continued)

Share options (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance 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 advance in a general meeting.

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 of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheet on the date of the grant of the share options which must be a trading day; and (ii) the average closing price of the Company's shares at 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 and outstanding under the Scheme during the year and as at balance sheet date.

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.

2,000 warrants were exercised during the year ended 31 December 2002 and no warrants were exercised during the year. As at 31 December 2003, 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.

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27. RESERVES

Group

	Notes	Share premium account HK$'000	Contributed surplus (Note a) HK$'000	Fixed assets revaluation reserve HK$'000	Statutory reserve fund (Note c) HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002								
As previously reported		–	2,220	28,789	1,270	345	119,021	151,645
Prior year adjustment:								
SSAP 12 – restatement of deferred tax	4,25	–	–	(1,520)	–	–	–	(1,520)
As restated		–	2,220	27,269	1,270	345	119,021	150,125
Issue of shares		36,001	–	–	–	–	–	36,001
Capitalisation issue of shares		(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	–
Appropriation to statutory reserve fund		–	–	–	527	–	(527)	–
Net profit for the year								
As previously reported		–	–	–	–	–	40,868	40,868
Prior year adjustment:								
SSAP 12 – restatement of deferred tax	4,25	–	–	–	–	–	(370)	(370)
As restated		–	–	–	–	–	40,498	40,498
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 and at 1 January 2003		–	–	27,591	1,797	342	137,277	167,007
Issue of shares	26	22,560	–	–	–	–	–	22,560
Share issue expenses	26	(1,120)	–	–	–	–	–	(1,120)
Exchange realignment		–	–	–	–	(320)	–	(320)
Surplus on revaluation	15	–	–	113	–	–	–	113
Revaluation reserve released		–	–	(670)	–	–	670	–
Appropriation to statutory reserve fund		–	–	–	795	–	(795)	–
Net profit for the year		–	–	–	–	–	19,557	19,557
Interim 2003 dividend	13	–	–	–	–	–	(5,376)	(5,376)
Deferred tax	25	–	–	(110)	–	–	–	(110)
At 31 December 2003		**21,440**	**–**	**26,924**	**2,592**	**22**	**151,333**	**202,311**

Notes to Financial Statements

31 December 2003

27. RESERVES (continued)

Group (continued)

	Share premium account HK$'000	Contributed surplus (Note a) HK$'000	Fixed assets revaluation reserve HK$'000	Statutory reserve fund (Note c) HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Reserves retained by:							
Company and subsidiaries	**21,440**	**–**	**26,924**	**2,592**	**22**	**151,329**	**202,307**
Associates	**–**	**–**	**–**	**–**	**–**	**4**	**4**
At 31 December 2003	**21,440**	**–**	**26,924**	**2,592**	**22**	**151,333**	**202,311**
Company and subsidiaries	–	–	27,591	1,797	342	137,277	167,007
Associates	–	–	–	–	–	–	–
At 31 December 2002	–	–	27,591	1,797	342	137,277	167,007

Company

	Notes	Share premium account HK$'000	Contributed surplus (Note b) HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002		–	–	–	–
Arising from acquisition of subsidiaries		–	156,526	–	156,526
Issue of shares		36,001	–	–	36,001
Capitalisation issue of shares		(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 and at 1 January 2003		–	152,762	570	153,332
Issue of shares	*26*	22,560	–	–	22,560
Share issue expenses	*26*	(1,120)	–	–	(1,120)
Net profit for the year		–	–	6,171	6,171
Interim 2003 dividend	*13*	–	–	(5,376)	(5,376)
At 31 December 2003		**21,440**	**152,762**	**1,365**	**175,567**

27. RESERVES (continued)

Company (continued)

Notes:

(a) The contributed surplus of the Group at 1 January 2002 represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the reorganisation of the Group and the nominal value of the share capital of the Company issued in exchange therefor.

(b) The contributed surplus of the Company arose as a result of the reorganisation of the Group 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.

(c) In accordance with the relevant regulations applicable to wholly foreign-owned enterprises in Mainland China, the Company's subsidiary in Mainland China 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.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) 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	3,085
	4,017
Satisfied by:	
Cash	4,017

Notes to Financial Statements

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

(a) 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 (B.V.I.) Limited 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 were engaged in investment holding and the trading of toys products. These subsidiaries were subsequently disposed of on 20 December 2002 *(note 28(b))*.

(b) 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	–

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

(b) 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 28(a) 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.

29. CONTINGENT LIABILITIES

(a) The Group had 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$590,000 as at 31 December 2003 (2002: HK$674,000), 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.

(b) At the balance sheet date, the Company had provided corporate guarantees of HK$115,500,000 (2002: HK$60,500,000) to certain banks in respect of banking facilities granted to its subsidiaries. As at 31 December 2003, such banking facilities were utilised up to an amount of HK$20,000,000.

(c) At the balance sheet date, the Company had provided corporate guarantees of HK$500,000 (2002: Nil) to a bank in respect of banking facilities granted to one of its associates. As at 31 December 2003, such banking facilities were utilised up to an amount of HK$500,000.

30. 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 two years.

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

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**422**	1,238
In the second to fifth years, inclusive	**204**	335
	626	1,573

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

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments in respect of the construction of factory buildings at the balance sheet date:

(a) Capital commitments

	2003	2002
	HK$'000	HK$'000
Capital commitments:		
Contracted for	**4,363**	176
Authorised, but not contracted for	**244**	40,118
	4,607	40,294

(b) Commitments under forward foreign exchange contracts

	2003	2002
	HK$'000	HK$'000
Forward foreign exchange contracts	**72,540**	–

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

32. RELATED PARTY TRANSACTIONS

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:

	Notes	2003 HK$'000	2002 HK$'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 quarters 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 quarters 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 as at the balance sheet date are included in note 21 to the financial statements.

33. COMPARATIVE AMOUNTS

As further explained in notes 2 and 4 to the financial statements, due to the adoption of a revised SSAP 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, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.