

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the design, manufacture, sale and distribution of baby products, mainly musical toys and components, plastic and electronic toys, ride-on cars and motorised toy vehicles.

An analysis of the Group's turnover by geographical markets are set out in note 3 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the five largest customers of the Group accounted for approximately 93% by value of the Group's turnover and the five largest suppliers accounted for approximately 30% by value of the Group's total purchases. The largest customer of the Group accounted for approximately 44% by value of the Group's turnover and the largest supplier accounted for approximately 10% by value of the Group's total purchases.

Save as disclosed in the section headed connected transactions below, none of the directors, their associates or any shareholders which, to the knowledge of the directors owned more than 5% of the Company's share capital, had any interest in the five largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31st December, 2000 are set out in the consolidated income statement on page 21. No dividends were paid during the year.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 48.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred HK\$16,452,000 in the expansion cost of its factory in the People's Republic of China and acquired moulds and plant and machinery amounting to HK\$2,345,000 and HK\$456,000, respectively, to upgrade its production facilities.

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

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SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and the Group's associates at 31st December, 2000 are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share options of the Company are set out in notes 23 and 24 to the financial statements, respectively.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONVERTIBLE NOTES

Details of the Company's convertible notes are set out in note 27 to the financial statements.

BORROWINGS

Details of the loans from a director, bank borrowings and obligations under finance leases and hire purchase contracts of the Group are set out in notes 20, 21 and 22 to the financial statements, respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Chan Sheung Wai (<i>Chairman</i>)	(appointed on 1st August, 2000)
Yiu Kui Leung (<i>Managing Director</i>)	
Ma Tak Lun	(appointed on 23rd April, 2001)
Chu Chi Wai, Anthony	(resigned on 31st July, 2000)
Kwok Chin Wing	(resigned on 11th April, 2001)

Independent non-executive directors:

Heng Kwo Seng	
Au-Yong Shong, Samuel	(appointed on 1st August, 2000)
Chan Sheung Wai	(resigned on 31st July, 2000)

In accordance with Clause 99 and Clause 119 of the Company's Bye-Laws, Messrs. Heng Kwo Seng and Au-Yong Shong, Samuel retire by rotation and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

The terms of office of independent non-executive directors are subject to retirement by rotation in accordance with the Company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SECURITIES

(i) Shares

At 31st December, 2000, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of directors	Number of ordinary shares held	
	Personal interests	Other interests
Kwok Chin Wing	1,360,000	100,438,000 (Note)
Yiu Kui Leung	350,000	—

Note: The shares of the Company are held by Victory Wall Enterprises Limited, a company which is indirectly held by a trustee of a trust in which Mr Kwok Chin Wing's spouse and children under the age of 18 are beneficiaries. Accordingly, Mr. Kwok Chin Wing is deemed under the SDI Ordinance to be interested in such shares.

(ii) Options

The directors had personal interests in share options to subscribe for shares in the Company granted under the Company's share option scheme as follows:

Name of directors	Date of grant	Exercise price HK\$	Outstanding as at 1.1.2000	Number of share options			
				Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31.12.2000
Yiu Kui Leung	14th March, 1995	0.62	1,400,000	—	—	—	1,400,000
	5th September, 1995	0.61	600,000	—	—	—	600,000
	16th March, 1997	0.32	300,000	—	300,000	—	—
	26th January, 2000	0.17	—	2,000,000	—	—	2,000,000
	26th January, 2000 (Note)	0.17	—	—	1,500,000	—	—
Chu Chi Wai, Anthony (resigned on 31st July, 2000)	14th March, 1995	0.62	4,000,000	—	—	4,000,000	—
Kwok Chin Wing (resigned on 11th April, 2001)	16th January, 1997	0.32	1,360,000	—	1,360,000	—	—

Note: These options were granted to the spouse of Mr. Yiu Kui Leung.

Details of the Company's share option scheme are set out in note 24 to the financial statements.

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DIRECTORS' INTERESTS IN SECURITIES *(continued)*

Other than the foregoing and certain nominee shares in subsidiaries held by directors in trust for the Company, at 31st December, 2000, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

1. During the period from 1st January, 2000 to 23rd March, 2000, the Group had significant transactions with companies in which a substantial shareholder of the Company had beneficial interests. On 23rd March, 2000, the Company issued and placed 58,000,000 new ordinary placing shares. Since then, this shareholder ceased to be a substantial shareholder and a connected person under the Listing Rules as its shareholding had been diluted. Details of the connected transactions with these companies for the period from 1st January, 2000 to 23rd March, 2000 are as follows:

Name of companies	Nature of transactions	Amount <i>HK\$'000</i>
Tek Nek Toys (HK) Limited ("Tek Nek HK")	Sale of toy vehicles and motorised toy vehicles	10,071
Tek Nek Toys International Inc. ("Tek Nek Inc.")	Sale of toy vehicles and motorised toy vehicles	6,643

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(continued)*

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), all the transactions as set out above (the "Transactions") constitute connected transactions for the Company and would normally require full disclosure and/or prior independent shareholders' approval each time any such transactions is entered into. A waiver was granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21st May, 1999 to the Company from strict compliance with the connected transactions requirements under the Listing Rules in respect of such transactions. The Transactions have been reviewed by the independent non-executive directors who have confirmed that:

- (a) the Transactions were in the ordinary and usual course of business of the Group;
 - (b) the Transactions were on normal commercial terms or on terms no less favourable than terms available to independent third parties;
 - (c) the Transactions were fair and reasonable so far as the shareholders of the Company are concerned; and
 - (d) the aggregate value of the sale of toy vehicles and motorised toy vehicles to Tek Nek HK and Tek Nek Inc. for the year ended 31st December, 2000 is not more than 80% of the Group's annualised turnover for the nine months ended 31st December, 1999.
2. Total loans from Mr. Kwok Chin Wing outstanding as at 31st December, 2000 amounted to HK\$44,500,000. The loans bear interest at prime rate. Interest amounting to HK\$3,167,000 was waived by the director, accordingly interest payable by the Group on the loans during the year amounted to HK\$2,451,000.

Other than disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of shares held	Percentage of total issued shares
Victory Wall Enterprises Limited ("Victory Wall")	100,438,000	17.87%
Top Market Investments Limited	100,438,000 *	17.87%
Well Strategy Limited	100,438,000 *	17.87%

* Duplication of Victory Wall's shareholding. Well Strategy Limited is the ultimate holding company of and Top Market Investments Limited is the immediate holding company of Victory Wall.

Victory Wall is a company in which Mr. Kwok Chin Wing has beneficial interests.

Other than disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2000.

On 21st March, 2001, Victory Wall entered into a sale and purchase agreement (the "Agreement") with MCC814 (Holdings) Limited ("MCC814"). Victory Wall agreed to sell 60,000,000 issued shares of the Company, representing approximately 10.7% of the issued share capital of the Company to MCC814, for a total consideration of HK\$24,000,000. Upon completion of the Agreement, Victory Wall will hold 40,438,000 shares, which represent approximately 7.2% of the issued share capital of the Company and MCC814 will become the single largest substantial shareholder of the Company which will hold approximately 10.7% of the issued share capital of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December, 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

CHAN SHEUNG WAI

CHAIRMAN

Hong Kong, 23rd April, 2001