

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are shown in note 15 to the financial statements.

The Group's turnover and operating profit were derived principally from the design, manufacture and sales of toys. An analysis of the Group's turnover by products and geographical location is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2003 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 22 to 53.

During the year, the Company paid an interim dividend of Hong Kong 5 cents per share, totalled approximately HK\$18,386,000, to shareholders. The directors recommend the payment of a final dividend of Hong Kong 10 cents per share and a special cash dividend of Hong Kong 5 cents per share in respect of the year ended 31st December 2003.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 22 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased 908,000 of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the repurchases are set out in note 22 to the financial statements.

Except as aforementioned, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

SHARE OPTION SCHEME

The Company's Share Option Scheme (the "Scheme") was adopted pursuant to a resolution passed on 21st December 1995 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 20th December 2005. Under the Scheme, the board of directors of the Company may offer to any directors (excluding non-executive directors) or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time unless separate approval by the shareholders in general meeting is obtained. No consideration is payable on the grant of any option.

REPORT OF THE DIRECTORS (Cont'd)

Options granted must be taken up within 21 days from the date of the offer at no consideration on acceptance. An option may be exercised as specified by the directors, which shall not be more than a certain period from the date of grant.

Details of the Company's share option are set out in note 22 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws although there is no statutory restriction against such rights under the laws in Bermuda.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements respectively.

BORROWINGS AND INTEREST CAPITALISED

The Group had no borrowings outstanding at the balance sheet date. No interest was capitalised by the Group during the year.

CHARITABLE DONATIONS

During the year, the Group made charitable donations which amounted to HK\$64,000.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2003 are set out in note 15 to the financial statements.

FINANCIAL SUMMARY

A five year financial summary is shown on page 54.

DIRECTORS

The directors of the Company during the financial year 2003 and up to the date of this report were:—

Mr. Yip Yun Kuen
Mr. Yip Yun Tim
Mr. Chan Shun Po
Mr. Chan Hon Biu, Alvin
Mr. Shiu Chun Yuen
Ms. Chan Pik Ha*
Mr. Xin Shu Lin*
Mr. Yeung Wai Kin*
Mr. Man Mo Leung#
Mr. Yap Alfred Donald#

* *Non-executive directors*

Independent non-executive directors

REPORT OF THE DIRECTORS (Cont'd)

The term of office for each non-executive director is the period up to his/her retirement by rotation in accordance with the Company's bye-laws.

In accordance with the Company's bye-laws, Mr. Chan Shun Po, Mr. Yeung Wai Kin and Mr. Yap Alfred Donald shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

The beneficial interests of the directors of the Company and their associates in the shares of the Company and its associated corporations at 31st December 2003 within the meaning of the Securities and Futures Ordinance (SFO) as recorded in the register maintained under Section 352 of the SFO, and their interests in the share options of the Company at that date, are as follows:

Name of Director	Capacity/Nature of interest	Number of Shares held		Percentage of holding (%)
		Long position	Short position	
Mr. Yip Yun Kuen (Note 2)	Personal	30,564,600 (Note 1)	—	8.32
Ms. Chan Pik Ha	Personal	6,435,000 (Note 1)	—	1.75
Mr. Chan Shun Po	Personal	4,720,320 (Note 1)	—	1.28
Mr. Yip Yun Tim	Personal	400,000 (Note 1)	—	0.11
Mr. Shiu Chun Yuen (Note 3)	Personal	3,300,000 (Note 1)	—	0.90
Mr. Chan Hon Biu, Alvin	Personal	40,000 (Note 1)	—	0.01
Mr. Man Mo Leung	Personal	182,000 (Note 1)	—	0.05

Notes:

- 1 Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
- 2 In addition to above, Mr. Yip Yun Kuen and his spouse, Ms. Chan Pik Ha, also have corporate interest of 133,925,220 ordinary shares in the Company through Extrad Assets Limited.
- 3 In addition to above, Mr. Shiu Chun Yuen has family interest of 110,000 ordinary shares with his spouse.

Save as disclosed above, the Company has not be notified by any person who had interests or short positions in the share or underlying shares of the Company.

REPORT OF THE DIRECTORS (Cont'd)

The following table discloses details of the number of options outstanding under the Company's share option scheme ("the Scheme") and movements during the period:

	Option type	Outstanding at beginning of period	Granted during period	Exercised during period	Outstanding at end of period
Directors					
Mr. Yip Yun Kuen	2002	300,000	—	—	300,000
Mr. Chan Shun Po	2002	300,000	—	—	300,000
Mr. Yip Yun Tim	2002	300,000	—	—	300,000
Mr. Chan Hon Bui, Alvin	2002	200,000	—	—	200,000
Mr. Shiu Chun Yuen	2002	200,000	—	—	200,000
Total Directors		<u>1,300,000</u>	<u>—</u>	<u>—</u>	<u>1,300,000</u>
Employees	2002	<u>3,700,000</u>	<u>—</u>	<u>—</u>	<u>3,700,000</u>
Total		<u>5,000,000</u>	<u>—</u>	<u>—</u>	<u>5,000,000</u>

On 2nd January 2002, option for 5,100,000 shares (the "2002" share options) of which 100,000 had lapsed were granted at no consideration to certain eligible employees, including directors of the Company, under the Scheme which are exercisable during the period from 1st January 2004 to 31st December 2013 at the price of HK\$1.10 per share.

The closing price of the Company's shares immediately before 2nd January 2002, the date of grant of the 2002 share options, was HK\$1.30. The five days weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$1.30.

Pursuant to Rule 17.10 of the Listing Rules, the Stock Exchange allowed the 2002 share options to be granted under the existing share option scheme.

Save as disclosed above and for shares in certain subsidiaries held by directors in trust for their immediate holding companies, at 31st December 2003, none of the directors and chief executive of the Company, or any of their associates, had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO Ordinance, and none of the directors and chief executives of the Company, 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.

REPORT OF THE DIRECTORS (Cont'd)

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts 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.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of 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.

MANAGEMENT AND SERVICE CONTRACTS

No contracts of significance concerning the management or administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without the payment of compensation (other than statutory compensation).

RETIREMENT SCHEMES

The Group has established and registered a defined contribution retirement scheme for its Hong Kong employees under the Occupational Retirement Scheme Ordinance. The Group and its employees are each required to make contributions to the scheme calculated at 5 per cent of individual employees' monthly basic salaries. The employees are entitled to the whole of the employer's contributions and accrued interests thereon after completion of 10 years of service, or at a reduced scale after completion of 3 to 9 years' service.

The Group's contributions made to employees who have left the Group's employment prior to being vested fully with such contributions are forfeited in accordance with the terms of the scheme and can be used by the Group to reduce the ongoing level of contributions. No forfeited contributions were utilized in this manner during the year. As at 31st December 2003, there were no forfeited contributions available to offset future employer's contributions to the scheme.

From 1st December 2000 onwards, the Group added a Mandatory Provident Fund ("MPF") Scheme in accordance with MPF legislation. The contributions borne by the Group and the employees are calculated at 5 per cent on salaries and wages.

The assets of both schemes are held and managed by independent trustees.

The Group's retirement scheme contributions charged to the income statement for the year amounted to approximately HK\$2,522,000.

REPORT OF THE DIRECTORS (Cont'd)

SUBSTANTIAL SHAREHOLDERS

At 31st December 2003, the following shareholders were interested in 5 per cent. or more of the issued share capital of the Company according to the register of interests required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Name of company	Capacity/ Nature of interest	Number of shares held		Percentage of holding (%)
			Long position	Short position	
Extrad Assets Limited (Note 2)	RBI Holdings Limited	Corporate	133,925,220 (Note 1)	—	36.45
Walbeck International Limited (Note 3)	RBI Holdings Limited	Corporate	74,062,352 (Note 1)	—	20.16
Arisaig Greater China Fund	RBI Holdings Limited	Corporate	20,564,000 (Note 1)	—	5.60

Notes:

- 1 Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
- 2 Extrad Assets Limited, a company owned by Mr. Yip Yun Kuen and his spouse, Ms. Chan Pik Ha, was beneficially interested in 133,925,220 ordinary shares of the Company.
- 3 Walbeck International Limited is a subsidiary of First Shanghai Investments Limited, a company listed on the Stock Exchange.

Other than as disclosed above, the Company has not been notified of any other interests representing 5% or more of the Company's issued share capital or short positions in the shares or underlying share of the Company as at 31st December 2003.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December 2003 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation in annual general meetings of the Company in accordance with the bye-laws of the Company.

AUDITORS

The financial statements of the Company for the preceding three years were audited by Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the board

Yip Yun Kuen
Chairman

Hong Kong, 7th April 2004