

# REPORT OF THE DIRECTORS

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The directors herein present their first report and the audited financial statements of the Company for the period from 21 November 2000 (date of incorporation) to 31 December 2000, and of the Group for the year ended 31 December 2000.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 21 November 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired Legend Wealth Holdings Limited, the then holding company of the subsidiaries listed in note 14 to the financial statements, and became the holding company of the Group on 19 December 2000 (the "Group Reorganisation"). Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 14 and 24 to the financial statements and in the Company's prospectus dated 9 January 2001.

Subsequent to the balance sheet date, on 22 January 2001, the Company completed its initial public offering and the shares of the Company were listed on the Stock Exchange.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of principal market for the year ended 31 December 2000 is as follows:

	Turnover		Contribution to profit from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By principal activity:				
Manufacture and trading of goods:				
Plush stuffed toys	78,929	66,069	26,224	19,481
Decorative gift items	60,415	49,853	26,741	16,011
	<u>139,344</u>	<u>115,922</u>	<u>52,965</u>	<u>35,492</u>

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### SEGMENTAL INFORMATION (continued)

	Turnover		Contribution to profit from operating activities	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical area:				
North America	61,961	55,898	20,141	16,451
Europe	26,355	23,741	11,400	7,424
People's Republic of China ("PRC"):				
Hong Kong	306	861	99	260
Elsewhere	45,953	27,118	19,344	8,671
Others	4,769	8,304	1,981	2,686
	<u>139,344</u>	<u>115,922</u>	<u>52,965</u>	<u>35,492</u>

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 56.

As stated in the Company's prospectus dated 9 January 2001, interim dividends totalling HK\$28,000,000 (1999: final dividends of HK\$24,440,000) were paid by certain subsidiaries of the Company to their then shareholders prior to the Group Reorganisation described in note 1 to the financial statements. The directors of the Company do not recommend the payment of any dividend in respect of the period.

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## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group prepared on the bases set out in notes (1) and (2) below:

### RESULTS

	Year ended 31 December			
	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>139,344</u>	<u>115,922</u>	<u>90,626</u>	<u>90,608</u>
Profit before tax	48,714	30,690	21,848	18,036
Tax	<u>(7,276)</u>	<u>(4,463)</u>	<u>(3,089)</u>	<u>(2,966)</u>
Net profit from ordinary activities attributable to shareholders	<u>41,438</u>	<u>26,227</u>	<u>18,759</u>	<u>15,070</u>

### ASSETS AND LIABILITIES

	31 December			
	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	182,032	107,492	100,493	78,460
Total liabilities	<u>(55,988)</u>	<u>(69,049)</u>	<u>(63,837)</u>	<u>(52,263)</u>
Net assets	<u>126,044</u>	<u>38,443</u>	<u>36,656</u>	<u>26,197</u>

#### Notes:

- (1) The summary of the combined results of the Group for the three years ended 31 December 1999 has been extracted from the Company's prospectus dated 9 January 2001. The consolidated results of the Group for the year ended 31 December 2000 are as set out on page 22 of the annual report. The summary of the consolidated/combined results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout these financial years, and is presented on the basis set out in note 3 to the financial statements.
- (2) The only published consolidated/combined balance sheets of the Group that have been prepared to date are those as at 31 December 1997, 1998, 1999 and 2000. The combined balance sheets as at 31 December 1997, 1998 and 1999 have been extracted from the Company's prospectus dated 9 January 2001, prepared on the basis as if the Group had been in existence since 31 December 1997. The consolidated balance sheet as at 31 December 2000 is as set out on page 24 of the annual report.

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## **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group are set out in note 13 to the financial statements.

## **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

## **BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

Details of the bank loans, overdrafts and other borrowings of the Group as at 31 December 2000 are set out in notes 19, 21 and 22 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital since 21 November 2000, together with reasons therefor, and details of the Company's share option scheme are set out in note 24 to the financial statements.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the period/year are set out in note 25 to the financial statements.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2000, the Company had distributable reserves of approximately HK\$125,039,000. Under the Companies Law (2000 Revision) of the Cayman Islands, the capital reserve is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

The Company's shares were listed on the Stock Exchange on 22 January 2001. Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period and up to the date of this report.

## **CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totalling approximately HK\$27,000.

## **PENSION SCHEMES AND COSTS**

Details of the Group's pension schemes and pension costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

In the opinion of the directors, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2000.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 31% of the total sales for the year and sales to the largest customer included therein amounted to approximately 7%. Purchases from the Group's five largest suppliers accounted for approximately 38% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

## **RELATED PARTY TRANSACTIONS**

Details of the related party transactions of the Group are set out in note 29 to the financial statements.

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## DIRECTORS

The directors of the Company during the period were:

Executive directors:

Mr. Hui Kee Fung	(appointed on 30 November 2000)
Mr. Hui Ki Yau	(appointed on 30 November 2000)
Ms. Hui Hung Tan, Teresa	(appointed on 30 November 2000)

Independent non-executive directors:

Mr. Sy Chin Mong, Stephen	(appointed on 30 November 2000)
Dr. Lin Ai Yue	(appointed on 30 November 2000)

In accordance with article 87 of the Company's articles of association, Ms. Hui Hung Tan, Teresa will retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Profile of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the Company's annual report.

## DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements, respectively.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 December 2000, which may be terminated by either party thereto giving to the other six months' prior notice in writing, providing that the notice period shall not expire at any time during the first year.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

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## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

Subsequent to the balance sheet date, on 22 January 2001, the shares of the Company were listed on the Stock Exchange. At the date of this report, the interests of the directors, chief executive or their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director		Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interest			
		Personal interest	Family interest	Corporate interest	Other interest
Mr. Hui Kee Fung	(Note)	–	–	156,750,000	–
Mr. Hui Ki Yau	(Note)	–	–	–	–
Ms. Hui Hung Tan, Teresa	(Note)	–	–	–	–

Note: The 156,750,000 shares are held by Legend Win Profits Limited ("Legend Win"), a company incorporated in the British Virgin Islands. The issued share capital of Legend Win is beneficially owned by Mr. Hui Kee Fung, Mr. Hui Ki Yau, Ms. Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company which is incorporated in Hong Kong, limited by guarantee and does not have a share capital. Mr. Hui Kee Fung, Mr. Hui Ki Yau, Mr. Hui Kee Choi and Ms. Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited. Mr. Hui Kee Choi is a brother of Mr. Hui Kee Fung, Mr. Hui Ki Yau and Ms. Hui Hung Tan, Teresa, and resigned as a director and ceased to be a member of Hui's K. K. Foundation Limited on 1 March 2001, subsequent to the balance sheet date.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company or any of its associated corporations, as defined in the SDI Ordinance.

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## DIRECTORS' RIGHTS TO ACQUIRE SHARES

At the date of this report, pursuant to the Company's share option scheme adopted by the Company on 19 December 2000, the board of directors may, at its discretion, offer full-time employees of the Company or any of its subsidiaries, including executive directors (excluding non-executive directors), options to subscribe for shares in the Company. The Company has not granted any options in favour of any director during the period and up to the date of this report.

Save as disclosed above and other than in connection with the Group Reorganisation and the Company's initial public offering, at no time during the period and up to the date of this report was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

At the date of this report, no person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance, other than the shares held by Legend Win as disclosed in the section headed "Directors' interests in share capital" above, which represented 71.25% of the Company's issued share capital as at the date of this report.

## POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 28 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), following the listing of the Company's shares on the Stock Exchange on 22 January 2001, except that the independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.



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## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 December 2000 with written terms of reference in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors. The Group's financial statements for the year ended 31 December 2000 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**HUI Kee Fung**

*Chairman*

Hong Kong

25 April 2001