

## Chairman's Statement

I am pleased to present the 2000 Annual Report to shareholders.

The Board of Directors of the Company ("the Board") announces that the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2000 recorded a profit of approximately HK\$5 million. The Board has, however, resolved not to recommend any payment of dividend for the financial year under review.

During the year, the operating environment for local manufacturers of the Hong Kong toy industry still remained harsh. Hong Kong's total exports of toys, dolls and games dropped by 2% despite the fact that exports to the US slightly increased by 2% in 2000. For the European market, Hong Kong's exports dropped by 5% while in the PRC market, exports declined significantly by 50%. Such market trend is basically reflected in the Group's geographical turnover.

Two major factors in the external operating environment affected the performance of the Group. Firstly, the oil price has been rising over the year and pushed up the Group's raw materials and operating cost. The price of plastic and paper, the two major components of the Group's production cost, increased by more than 50% and 25% respectively in the year. Moreover, the fluctuation of the supply of electronic chips also affected the costs and schedule of production. As all such cost increases could not be put on the shoulders of the customers, the thin profit margin of the Group has further been driven down greatly.

Secondly, in the market place, though the US Federal Reserve has lowered the interest rates several times in the year, the outlook for the US economy remained gloomy. Market sentiment is flat as the US economy is showing signs of economic downturn and it is not expect to be recovered in the short term. As such, customers have been much more cautious in placing new orders. Orders have remained small with short delivery lead time as customers intend to reduce inventories.

For the financial year of 2001, the Toy Manufacturers of America forecasts a 6% increase in sales. Hong Kong manufacturers will continue to be major players in the US toy market. The growth of the toy market in the EU in 2001 will remain relatively steady. In addition, PRC's WTO accession should also open up the mainland's domestic market to Hong Kong toys manufacturers. The Board is of the view that 2001 will be a year of challenge for the Group. The Board will continue to adopt a proactive policy in managing its operation and to streamline its financial position so as to further improve returns to the shareholders of the Company.

During the year, Mr. Patrick Leung Shing-cheung and Mr. Benjamin Chung Yuk-ming have resigned as Executive Directors of the Company. On behalf of the Board, I would like to express my sincere thanks to Mr. Leung and Mr. Chung for their valuable contribution during their tenure of service on the Board. Besides, I would like to take this opportunity to express my appreciation and thanks to all my fellow directors and staff of the Group for their commitment and contribution.

**Dennis Ting Hok Shou**

*Chairman*

Hong Kong, 17th April, 2001