



Report of the Directors

The directors herein present their first report and the audited financial statements of the Company for the period from 22 August 2001 (date of incorporation of the Company) to 31 December 2001 and the supplementary pro forma combined financial statements for the Group, which was legally formed subsequent to 31 December 2001, for the year ended 31 December 2001.

Group reorganisation and basis of presentation

The Company was incorporated in Bermuda on 22 August 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a reorganisation arrangement (the “Reorganisation”) to rationalise the Group structure in preparation for the listing of the Company’s securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the subsidiaries listed in note 30 to the financial statements on 5 February 2002. Further details of the Reorganisation, together with the details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 27, 28 and 30 to the financial statements and in the prospectus of the Company dated 22 February 2002 (the “Prospectus”).

Subsequent to the balance sheet date, on 6 March 2002, the shares and warrants of the Company were listed on the Stock Exchange.

Supplementary pro forma financial information of the Group, comprising pro forma combined profit and loss account; statement of recognised gains and losses; balance sheet and cash flow statement, has also been presented in order to further apprise the Company’s shareholders of the Group’s profit and its state of affairs as if the Group had been in existence throughout the period presented. The information referring to the Group presented in this directors’ report has been presented on a basis consistent with that of the preparation of the supplementary pro forma financial information which is further explained in note 1 to the financial statements.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries acquired subsequent to the year end pursuant to the Reorganisation are manufacturing and trading of toy products. There were no significant changes in the nature of the Group’s principal activities during the year.

Segment information

An analysis of the Group’s pro forma combined turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.



Report of the Directors

Results and dividends

The Group's pro forma combined profit for the year ended 31 December 2001 and its pro forma combined state of affairs at that date, together with the state of affairs of the Company as at 31 December 2001, are set out in the financial statements on pages 27 to 59.

During the year, dividends aggregating HK\$30,000,000 were declared and paid by certain subsidiaries of the Company to the then shareholders prior to the Reorganisation as set out 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 from 22 August 2001 (date of incorporation) to 31 December 2001.

The directors of the Company recommended the payment of a special dividend of HK2 cents per share in respect of the year ending 31 December 2002 to all shareholders whose names appear on the Company's register of members on 27 May 2002. Further details are set out in notes 13 and 34 to the financial statements.

Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange subsequent to the balance sheet date on 6 March 2002, after deduction of related issuance expenses, amounted to approximately HK\$36,000,000. The net proceeds remained unused is placed in short term deposits with licensed banks in Hong Kong. Such proceeds will be applied in the coming years to their intended uses as set out in the Prospectus.

Summary pro forma financial information

A summary of the pro forma combined results and of the pro forma combined assets and liabilities of the Group for the last four financial years is set out on page 60. This summary does not form part of the audited pro forma combined financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.



Report of the Directors

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the period from 22 August 2001 (date of incorporation) to 31 December 2001 and subsequent thereto, together with the reasons therefor, are set out in note 27 to the financial statements.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the Company

The Company's shares were listed on the Stock Exchange on 6 March 2002. Accordingly, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 22 August 2001 (date of incorporation) to 31 December 2001.

Reserves

Details of movements in the reserves of the Group during the year are set out in note 28 to the financial statements.

Distributable reserves

At 31 December 2001, the Company had no distributable reserves.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$145,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 99% of the Group's pro forma combined sales for the year and sales to the largest customer included therein amounted to 53%. Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's pro forma combined purchases for the year.

None of the directors of the Company, nor any of their associates, nor any shareholder (who, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.



Report of the Directors

Directors

The directors of the Company from its date of incorporation were as follows:

Executive directors:

Cheung Po Lun ("Mr Cheung")	(appointed on 11 September 2001)
Cheung Man, Catherine	(appointed on 11 September 2001)
Hui Kwok Chu	(appointed on 11 September 2001)
Ho Kam Chuen	(appointed on 11 September 2001)
Kung Ka Pang	(appointed on 11 September 2001)

Independent non-executive directors:

Yeung Po Chin	(appointed on 5 February 2002)
Wong Yam Fung	(appointed on 5 February 2002)

In accordance with clause 86(2) of the Company's Bye-laws, Mr Yeung Po Chin and Mr Wong Yam Fung will retire as directors of the Company at the Company's forthcoming annual general meeting ("AGM"). In addition, pursuant to clause 87(1) of the Company's Bye-laws, Mr Kung Ka Pang will retire as a director of the Company by rotation at the AGM. The above retiring directors, being eligible, will offer themselves for re-election at the AGM.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the Annual Report.

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 on 5 February 2002, which may be terminated by either party to the relevant service contract by giving to the other not less than three months' notice in writing.

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



Report of the Directors

Directors' interests in contracts

Save for transactions disclosed in note 35 to the financial statements and transactions in connection with the Reorganisation in preparation for the Company's listing on the Stock Exchange, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

Directors' interests in the securities of the Company and its associated corporations

Subsequent to the balance sheet date, on 6 March 2002, the Company was listed on the Stock Exchange. Accordingly, as at the date of this report, the interests of the directors and their associates in the securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI" Ordinance) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(1) The Company

(i) Ordinary shares

Name of director	Type of interest	Number of shares owned
Mr Cheung	Corporate	300,000,000 (Note)

(ii) Warrants

Name of director	Type of interest	Number of warrants owned
Mr Cheung	Corporate	30,000,000 (Note)

Note:

Both the shares and warrants are held by Great Victory International Inc. ("Great Victory"), a company beneficially owned by Mr Cheung.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.



Report of the Directors

Directors' interests in the securities of the Company and its associated corporations (continued)

(2) Associated corporations

(i) Great Victory (holding company of the Company)

Name of director	Nature of interest	Number and class of shares held in the associated corporation
Mr Cheung	Personal	100 ordinary shares (representing its entire issued share capital)

(ii) Sewco Toys & Novelty Limited (the "Sewco Toys") (indirect wholly-owned subsidiary of the Company)

Name of director	Nature of interest	Number and class of shares held in the associated corporation
Mr Cheung	Personal	4,200 non-voting deferred shares (representing all of its non-voting deferred shares)

(iii) Pearl Delta Toys Limited (the "Pearl Delta") (indirect wholly-owned subsidiary of the Company)

Name of director	Nature of interest	Number and class of shares held in the associated corporation
Mr Cheung	Personal	2,000,000 non-voting deferred shares (representing all of its non-voting deferred shares)

In addition to the above, Mr Cheung holds an ordinary share in each of Sewco Toys and Pearl Delta in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirements.



Report of the Directors

Share option scheme

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 conditionally 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 scheme of the Company cannot exceed 30% of the issued share capital of the Company from time to time. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the ordinary shares in issue on 6 March 2002. The Company may seek approval of its shareholders in 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 scheme of the Group under the limit as “refreshed” must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. At the date of this report, no share options had been granted. The maximum number of shares issuable under share options 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.

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.



Report of the Directors

Share option scheme (continued)

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 at stated in the Stock Exchange's daily quotation sheets 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.

The financial impact of share options granted 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 the 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 lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

No share options have been granted under the Scheme up to the date of approval of the Annual Report.

Save as disclosed above under the headings "Directors' interests in the securities of the Company and its associated corporations" and "Share option scheme", none of the directors or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) or had any right to subscribe for equity or debt securities of the Company, as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial shareholders' interests

As at the date of this report, the following interest of 10% or more of the share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued capital
Great Victory	300,000,000	75

The above interest in the name of Great Victory was also disclosed as the interest of Mr Cheung in the above section headed "Directors' interests in the securities of the Company and its associated corporations".



Report of the Directors

Substantial shareholders' interests (continued)

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in the securities of the Company and its associated corporations" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Connected transactions

The following transactions constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") following the listing of the Company's shares on the Stock Exchange on 6 March 2002:

- (i) a tenancy agreement dated 30 July 2001 whereby Flat C on 9th Floor of Tower 18, No. 49 Tat Chee Avenue, Parc Oasis, Yau Yat Chuen, Kowloon, Hong Kong, with an aggregate gross floor area of approximately 603 square feet was leased by Ms Cheung Man, Catherine, a director of the Company, to Pearl Delta for a term of one year which commenced on 1 August 2001 at a monthly rental of HK\$17,000, exclusive of rates and other charges.
- (ii) a tenancy agreement dated 30 July 2001 whereby Flat A on 7th Floor of Block 4, Beverly Villas, No. 16 La Salle Road, Kowloon Tong, Kowloon, Hong Kong, with an aggregate gross floor area of approximately 1,449 square feet was leased by Ms Fung Wai Chi, Philomena, the wife of Mr Cheung, to Sewco Toys for a term of one year which commenced on 1 July 2001 at a monthly rental of HK\$36,000, exclusive of rates and other charges.

The residential premises listed above continue to be used by the directors of the Company as their residential quarters. The terms of the leases were determined between both parties with reference to the then prevailing market conditions and in the normal course of business.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in notes 13, 27 and 34 to the financial statements.



Report of the Directors

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the Annual Report except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Company’s Bye-laws.

Audit committee

To comply with the Code, the Company established an audit committee (the “Committee”) on 5 February 2002, with written terms of reference, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal control system. The Committee comprises the two independent non-executive directors as set out above. The Group’s pro forma combined financial statements as at and for the year ended 31 December 2001 and the Company’s balance sheet as at 31 December 2001 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

Auditors

Ernst & Young were appointed by the directors as the first auditors of the Company. Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

Cheung Po Lun

Chairman

Hong Kong

18 April 2002