



Directors' Report

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 15 to the financial statements.

CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 98.9% of the Group's turnover, with the largest customer accounting for approximately 80.3%. The aggregate purchases attributable to the Group's five largest suppliers was approximately 47% of total purchases of the Group, with the largest supplier accounting for approximately 24.2%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 19.

The directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings and plant and machinery were revalued at 31st December, 2001. The revaluation resulted in a surplus over book values amounting to approximately HK\$2,355,000 which has been credited to other asset revaluation reserves.

The Group also reviewed the carrying amounts of certain of its plant and machinery at 31st December, 2001. The review resulted in an impairment loss amounting to approximately HK\$3,245,000 which has been debited to other asset revaluation reserves.

Details of the movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.



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SHARE CAPITAL

Movements during the year in the share capital of the Company are set out in note 20 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

DIRECTORS

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

Executive directors:

Cheng Yung Pun (*Chairman*)

Cheng Wing See, Nathalie

Yu Sui Chuen

Independent non-executive directors:

Heng Kwoo Seng

Mak Shiu Chung, Godfrey

In accordance with the provisions of the Company's bye-laws, Messrs. Yu Sui Chuen and Mak Shiu Chung, Godfrey retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' SERVICE CONTRACTS

Mr. Yu Sui Chuen, the executive director, has entered into a service agreement with the Company which commenced from 8th September, 2000 and is terminable by either party giving not less than six months' written notice.

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



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DIRECTORS' INTERESTS IN SECURITIES

Shares

At 31st December, 2001, 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 director	Number of shares held	
	Personal interests	Corporate interests
Cheng Yung Pun ("Mr. Cheng")	-	89,150,800 (<i>Note</i>)

Note: The shares are held by Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The entire issued share capital of Suncorp is wholly owned by Mr. Cheng. In addition, Suncorp holds the entire interest of the convertible loan stock of the Company amounting to HK\$44 million.

Save as disclosed above, none of the directors or chief executives, nor 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 chief executives, nor 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.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 26th January, 1994 for the primary purpose of providing incentives to directors and eligible employees and will expire on 25th January, 2004. Under the scheme, the Company may grant options to employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company, at a price equal to the higher of the nominal value of a share or 80% of the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options.

Options granted must be taken up not later than 28 days after the date of grant. An option may be exercised in accordance with the terms of the share option scheme at any time during the two-year period commencing six months after the date on which the option is accepted and expiring on the last day of the two-year period or 25th January, 2004, which is the earlier. A price of HK\$1 is payable by the grantee upon acceptance of the grant of every option under the scheme.

The maximum number of shares in respect of which options may be granted under the share option scheme cannot exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the share option scheme.

No options under the scheme were granted or exercised during the year and there were no outstanding options at 31st December, 2001.



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SHARE OPTION SCHEME *(Continued)*

Pursuant to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") effected on 1st September, 2001, with which the Company must comply, the exercise price of options under an option scheme must be at least the higher of : (i) the closing price of the shares on the Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of options to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue.

At 31st December, 2001, the total number of shares available for issue under the Company's share option scheme is 14,472,000 shares which represents 10% of the issued share capital of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED PARTY TRANSACTIONS

During the year, Keyhinge Toys Company Limited, a wholly owned subsidiary of the Company, purchased gift products from Keyhinge Toys Vietnam Company Limited ("Keyhinge Vietnam") in the amount of HK\$285,000.

Besco Enterprises Limited, a wholly owned subsidiary of the Company, sub-contracted manufacturing orders of gift products to Keyhinge Holdings Limited ("Keyhinge") for production since July 2001. The aggregate sub-contracting fee paid/payable to Keyhinge amounted to HK\$8,833,000.

A tenancy agreement was entered between Matrix Resources Enterprise Limited, a wholly owned subsidiary of the Company, and Kwok Lung Industrial Company Limited ("Kwok Lung") on 1st May, 2001 in respect of a premise in Hong Kong. The rental paid/payable for the year in respect of the tenancy agreement was amounted to HK\$144,000.

During the year, interest on the 5% convertible loan stock amounting to HK\$2,210,000 was accrued and payable to Suncorp.

Suncorp provided working capital facilities (the "Facilities") of HK\$10 million to the Group for a period of one year commencing on 30th August, 2000. The Facilities expired during the year.



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DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED PARTY TRANSACTIONS *(Continued)*

On 28th March, 2001, the Company entered into a supplemental agreement with Suncorp to revise the terms of the convertible loan stock regarding its conversion period. Under the agreement, the conversion period of the convertible loan stock commenced on 23rd May, 2001 instead of the date commencing from the third anniversary from its date of issue on 30th April, 2000.

In January 2002, Suncorp converted an amount of HK\$7,700,000 convertible loan stock into 77,000,000 shares of HK\$0.10 each of the Company.

Mr. Cheng has beneficial interest in Keyhinge Vietnam, Keyhinge and Kwok Lung.

The restructuring costs recovered for the year represented the write back of the restructuring costs overcharged in previous year. In September 2001, the Group claimed the former shareholder such amount which was subsequently received in February 2002.

Save as disclosed above, no other contracts of significance to which the Company, its holding 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of directors of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other person as having an interest of 10% or more in the share capital of the Company as at 31st December, 2001.

POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 29 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



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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.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the bye-laws of the Company.

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

Cheng Yung Pun

Chairman

Hong Kong, 8th April, 2002