

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

Group reorganisation and basis of presentation

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 17 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, 17, 27 and 28 to the financial statements and in the prospectus of the Company dated 22 February 2002 (the "Prospectus").

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 63.

A special dividend of HK2 cents per ordinary share and an interim dividend of HK1.2 cents per ordinary share were paid on 14 June 2002 and 7 November 2002, respectively. The directors of the Company recommended the payment of a final dividend of HK2 cents per ordinary share in respect of the year, to shareholders whose names appear on the Company's register of members on 6 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 30 April 2003 to Tuesday, 6 May 2003 (both days inclusive), during which period no transfer of shares of the Company will be registered and no shares of the Company will be issued upon exercise of any subscription rights attaching to the outstanding warrants issued by the Company. In order to qualify for entitlement to the proposed final dividend and for attending the annual general meeting (the "AGM") of the Company to be held on Tuesday, 6 May 2003, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms and, in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 29 April 2003.

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 on 6 March 2002, after deduction of related issuance expenses, amounted to approximately HK\$36,000,000. Approximately HK\$2,000,000 of these proceeds was applied to acquire plant and machinery for the use of the Company's subsidiary in The People's Republic of China during the year ended 31 December 2002, in accordance with the proposed applications set out in the Prospectus. The net proceeds remained unused are 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 financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 64 of this Annual Report. This summary does not form part of the audited financial statements.

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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.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, 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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated summary statement of changes in equity on page 22 of this Annual Report.

Distributable reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$161,332,000 (inclusive of the Company's contributed surplus) as computed in accordance with the generally accepted accounting principles in Hong Kong.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$56,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 100% of the Group's total sales for the year and sales to the largest customer included therein amounted to 57%. Purchases from the Group's five largest suppliers accounted for 32% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for less than 10% of the Group's total purchases.

None of the directors of the Company or any of their associates or any shareholders (who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year.

Directors

The directors of the Company during the year were:

Executive directors:

Cheung Po Lun ("Mr Cheung")

Cheung Man, Catherine

Hui Kwok Chu

Ho Kam Chuen

Kung Ka Pang

Independent non-executive directors:

Yeung Po Chin (appointed on 5 February 2002)

Wong Yam Fung (appointed on 5 February 2002)

In accordance with clause 87(1) of the Company's Bye-laws, Ms Cheung Man, Catherine and Mr Hui Kwok Chu will retire as directors of the Company by rotation at the Company's forthcoming 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 6 to 7 of this 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.

Directors' interests in contracts

Save for transactions disclosed in note 34 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

At 31 December 2002, the interests of the directors of the Company 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 owned by Great Victory International Inc. ("Great Victory"), a company beneficially owned by Mr Cheung.

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 ("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 ("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.

Save as disclosed above, none of the directors of the Company or their 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.

Directors' rights to acquire shares

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 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. Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the details relating to the Company's share option scheme have been disclosed in note 27 to the financial statements. No share options have been granted by the Company under the Scheme up to the date of this report.

Save as disclosed above under the heading "Directors' interests in the securities of the Company and its associated corporations", at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or to their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' interests

At 31 December 2002, 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".

Save as disclosed above, no person, other than the director of the Company whose interests are set out in the section headed "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 18 July 2002 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 two years which commenced on 1 August 2002 at a monthly rental of HK\$17,000, exclusive of rates and other charges.
- (ii) a tenancy agreement dated 10 July 2002 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 two years which commenced on 1 July 2002 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 event

Details of the significant post balance sheet event of the Group are set out in note 33 to the financial statements.

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 By-laws.

Audit committee

The Company established an audit committee (the "Committee") on 5 February 2002 in accordance with the requirements of the Code, 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 financial statements as at and for the year ended 31 December 2002 and the Company's balance sheet as at 31 December 2002 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 will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Cheung Po Lun

Chairman

Hong Kong

20 March 2003