

## Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

### Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 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 2003 and the state of affairs of the Company and the Group at that date are set out in this annual report on pages 20 to 61.

An interim dividend of HK1.2 cents per ordinary share was paid on 7 November 2003. The directors of the Company do not recommend the payment of any final dividend in respect of the year.

### Closure of register of members

The register of members of the Company will be closed from Monday, 24 May 2004 to Friday, 28 May 2004 (both dates 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 attending the annual general meeting of the Company to be held on Friday, 28 May 2004, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 21 May 2004.

### 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 of Hong Kong Limited (the "Stock Exchange") on 6 March 2002, after deduction of related issuance expenses, amounted to approximately HK\$36,000,000. As at 31 December 2003, approximately HK\$9,000,000 of these proceeds has been applied for the construction of a new factory complex in Mainland China, approximately HK\$6,000,000 has been applied to acquire plant and machinery and approximately HK\$10,000,000 has been used as working capital of the Group. Such uses are in accordance with the proposed applications set out in the Prospectus. The remaining proceeds of approximately HK\$11,000,000 is placed in short term deposits with licensed banks in Hong Kong and will be applied in the coming years to their intended uses as set out in the Prospectus.

## Report of the Directors

### 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 62 of this annual report. This summary does not form part of the audited 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.

### 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 26 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 its 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 27 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 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$154,127,000 (inclusive of the Company's contributed surplus) as computed in accordance with generally accepted accounting principles in Hong Kong.

## Report of the Directors

### Charitable contributions

During the year, the Group made charitable contributions totalling HK\$17,000 (2002: HK\$56,000).

### Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 99% of the Group's total sales for the year and sales to the largest customer included therein amounted to 43%. Purchases from the Group's five largest suppliers accounted for 33% 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

Kung Ka Pang

Ho Kam Chuen (resigned on 30 September 2003)

#### Independent non-executive directors:

Yeung Po Chin

Wong Yam Fung

In accordance with clause 87(1) of the Company's bye-laws, Mr Kung Ka Pang will retire as director of the Company by rotation at the Company's forthcoming annual general meeting. The above retiring director, being eligible, will offer himself for re-election at the annual general meeting.

### 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 8 to 9 of this annual report.

## Report of the Directors

### 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 annual general meeting 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 32 to the financial statements, no director had a material interest, either directly or indirectly, 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 and short positions in shares and underlying shares

At 31 December 2003, the interests and short positions of the directors of the Company in the securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

*Long positions in ordinary shares of the Company:*

Name of director	Capacity	Number of ordinary shares interested	Percentage of the Company's issued share capital
Mr Cheung	Interest in corporation	300,000,000 (Note)	66.96%

*Long positions in warrants of the Company:*

Name of director	Capacity	Number of warrants interested	Percentage of the Company's issued share capital
Mr Cheung	Interest in corporation	30,000,000 (Note)	6.70%

Note: Mr Cheung was deemed to be interested in 300,000,000 ordinary shares and 30,000,000 warrants of the Company which were held through Great Victory International Inc. ("GVII"), a controlled corporation of Mr Cheung pursuant to SFO.

## Report of the Directors

### Directors' interests and short positions in shares and underlying shares (continued)

Long/Short positions in shares of associated corporations:

- (i) GVII (holding company of the Company)

Name of director	Long/Short position	Capacity	Number of ordinary shares interested in GVII	Percentage of the issued share capital of GVII
Mr Cheung	Long	Beneficial owner	100	100%

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

Name of director	Long/Short position	Capacity	Class of shares	Number of shares interested in Sewco Toys	Notes	Percentage of the respective classes of issued share capital of Sewco Toys
Mr Cheung	Long & short	Beneficial owner and interest in corporation	Non-voting deferred	4,200	(a)	100%
Mr Cheung	Long	Interest in corporation	Ordinary	2	(b)	100%

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

Name of director	Long/Short position	Capacity	Class of shares	Number of shares interested in Pearl Delta	Notes	Percentage of the respective classes of issued share capital of Pearl Delta
Mr Cheung	Long & short	Beneficial owner and interest in corporation	Non-voting deferred	2,000,000	(a)	100%
Mr Cheung	Long	Interest in corporation	Ordinary	2	(b)	100%

## Report of the Directors

### Directors' interests and short positions in shares and underlying shares (continued)

*Notes:*

- (a) The 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta were owned by Mr Cheung. Therefore, Mr Cheung had a "long position" of 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta.

Pursuant to the option agreements dated 5 February 2002, Mr Cheung granted to Sewco (B.V.I.) Limited, a wholly-owned subsidiary of the Company, an option to purchase from him the 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta. Accordingly, Mr Cheung had a "short position" of 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta.

In addition, as the Company was a controlled corporation (as defined in Part XV of the SFO) of Mr Cheung, Mr Cheung was deemed to have a "long position" of the 4,200 non-voting deferred shares in Sewco Toys and 2,000,000 non-voting deferred shares in Pearl Delta that Sewco (B.V.I.) Limited had in such shares.

- (b) Mr Cheung was deemed to be interested in the 2 ordinary shares of each of Sewco Toys and Pearl Delta indirectly owned by the Company since the Company was a controlled corporation of Mr Cheung.

In addition to the above, Mr Cheung held an ordinary share in each of Sewco Toys and Pearl Delta in a non-beneficial capacity for the benefit of the Group, solely for the purpose of ensuring that these subsidiaries have more than one shareholder.

Save as disclosed above, as at 31 December 2003, none of the directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, registered an interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or an interest which was required to be entered into the register kept by the Company pursuant to Section 352 of the SFO 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. No share options have been granted by the Company under the Scheme up to the date of this report.

## Report of the Directors

### Directors' rights to acquire shares (continued)

Save as disclosed above under the heading "Directors' interests and short positions in shares and underlying shares" and in the share option scheme disclosures in note 26 to the financial statements, 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 minor children, 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 2003, the following interests of 5% or more of the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/Short position	Capacity	Type of securities	Number of securities interested	Notes	Percentage of the Company's issued share capital
GVII	Long	Beneficial owner	Ordinary shares	300,000,000	1	66.96%
GVII	Long	Beneficial owner	Warrants	30,000,000	1	6.70%
Ms Fung Wai Chi, Philomena ("Ms Fung")	Long	Interest of spouse	Ordinary shares	300,000,000	2	66.96%
Ms Fung	Long	Interest of spouse	Warrants	30,000,000	2	6.70%
Prudential Asset Management (Hong Kong) Limited ("PAML")	Long	Investment manager	Ordinary shares	39,672,000	3	8.86%
Prudential Corporation Holdings Limited ("PCHL")	Long	Interest in corporation	Ordinary shares	39,672,000	3	8.86%
Prudential PLC ("PP")	Long	Interest in corporation	Ordinary shares	39,672,000	3	8.86%

*Notes:*

- The above interests in the name of GVII were also disclosed as the interests of Mr Cheung in the above section headed "Directors' interests and short positions in shares and underlying shares".
- Ms Fung was deemed to be interested in the 300,000,000 ordinary shares and 30,000,000 warrants of the Company through the interest of her spouse, Mr Cheung.
- PAML was wholly-owned by PCHL which was a wholly-owned subsidiary of PP. Accordingly PCHL and PP were deemed to be interested in the 39,672,000 shares of the Company in which PAML was interested.

Save as disclosed above, no person, other than the directors of the Company, whose interests were set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Report of the Directors

### Connected transactions

The following transactions constituted connected transactions as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

- (i) A tenancy agreement dated 16 December 2003 whereby Flat C on 30th Floor of Grand Excelsior, 83 Waterloo Road, Ho Man Tin, Kowloon, Hong Kong, with an aggregate gross floor area of approximately 1,323 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 January 2004 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, 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.
- (iii) An amount of HK\$202,000 was paid during the year for the decoration of a flat owned by Ms Cheung Man, Catherine, a director of the Company, which is to be used by her as a quarter.

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 the parties involved with reference to the then prevailing market conditions and in the normal course of business.

### 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 annual general meeting of the Company in accordance with the Company's bye-laws.

### Audit committee

The Company has an audit committee (the "Committee") which was established 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 2003 and the Company's balance sheet as at 31 December 2003 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the relevant legal requirements, and that adequate disclosures have been made.



## Report of the Directors

### **Auditors**

Ernst & Young will 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

### **Cheung Po Lun**

*Chairman*

Hong Kong

15 April 2004