

Chairman's Statement

2003 was a difficult year for the Group's operation. The sluggish global economy and the outbreak of the Severe Acute Respiratory Syndrome ("SARS") during the first half year have posed a detrimental impact to the Group's results. During the year ended 31 December 2003, the Group recorded turnover of approximately HK\$84.0 million (2002: HK\$100.3 million) and incurred loss attributable to shareholders of approximately HK\$4.6 million (2002: net profit of HK\$11.7 million). In addition, the Group has incurred losses arising from revaluation of properties and write-off of fixed assets of approximately HK\$2.8 million and HK\$3.4 million, respectively, for the year under review.

The Group's toys and gifts division encountered formidable challenges in the first half year. Normal business activities were muted in the People's Republic of China (the "PRC"), Hong Kong and other regions during the period of SARS outbreak. Certain local and overseas customers pulled off or postponed their orders during our important order placement season. Despite the gradual recovery of the market after the SARS outbreak, revenue of the Group's toys and gifts division dropped significantly during the year under review due to the sharp decrease in order placements from our customers during the SARS period. The Group believes that this is an exceptional year and the business will gradually pick up in the year ahead.

Against a backdrop of beleaguered business environment, the Group adopted prudent but active approach in the toys and gifts division and reacted swiftly to develop new series of products with value-added features and functions. The SARS outbreak has increased the global awareness of environmental protection and hygiene. Backed by the concerted research and development efforts of our product design team in collaboration with the technology supplier, the Group pioneered to design and promote nano plush toys which were equipped with environmental-friendly features of water repellency, stain resistance and anti-bacteria. The nanotechnology will enhance our products' competitiveness and help the Group to expand its presence in the global market.

The Group also diversified its geographic reach to minimize the impact of any regional outbreak of incident or epidemic on our Group's operations. The Group have spearheaded to set up a subsidiary in the United States of America, which commenced its operation during the year under review. The subsidiary gave a boost to our overseas sales activities in the North America region.

Backed by the well-established toys and gifts business, the Group actively seized diversification opportunities to broaden the revenue sources. On 17 December 2003, the Group entered into a joint venture agreement to establish Sangyang Spandex Co. Ltd. ("SY Spandex") in the Jiangsu Province of the PRC with Sinochem International Company Limited ("Sinochem International") (Shanghai Stock Exchange: 600500), Sangyang Textile Co., Ltd. and Harvest City Enterprises Limited.

Sinochem International is one of the largest state-owned enterprises engaged in the trading of a wide range of chemical products. In addition, Sinochem International is the sole manufacturer of PTMEG in the PRC, which is the key raw material for the production of spandex. Accordingly, Sinochem International can help to ensure the stable and abundant supply of raw materials for the production of spandex by the joint venture.

Spandex is a kind of highly elastic chemical fibre widely applied in different types of cloths and garments. The Group believes that spandex will not only enhance the quality and variety of the Group's existing products, but will also provides the Group with an opportunity to vertically integrate its production process. The spandex can also be sold to other textile manufacturers in the PRC, which have enormous demand on spandex.

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According to the PRC Chemical Industry Bureau, the PRC demand of spandex was 52,000 tonnes in contrast to the limited domestic supply of 39,000 tonnes in 2002. The demand of spandex in the PRC was expected to increase to 150,000 tonnes by 2010 and the supply shortage for spandex will be further widened. Construction of the production facilities of SY Spandex is expected to be completed before the end of 2004 and the first phase production of 5,000 tonnes of spandex will commence shortly afterwards. The production capacity of SY Spandex will be further increased to 10,000 tonnes upon completion of the second phase of the production facilities. Given the proprietary spandex manufacturing technology from Sinochem International, coupled with the Group's modernized management and international perspective, the Group believes that the joint venture is well-positioned to become the leading spandex manufacturer in the PRC. In addition, the application of spandex can help to enhance the competitiveness of the Group's toys and gifts products. In the long run, the Group is confident that the provision of spandex to textile companies in the PRC will propel the joint venture into a high-growth era to capitalize the burgeoning potential of spandex in the PRC. This will help to widen the Group's revenue sources and benefit the Group and our shareholders. The Group will also continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business.

Looking forward, the global and the PRC economy staged a gradual recovery after the SARS outbreak. The Group eyes the tremendous opportunities presented by the PRC's entry into WTO and the 2008 Beijing Olympics. The Group will continue to strengthen its foothold in the toys and gifts business through the addition of value-enhancing features into its products. The application of nanotechnology into our products can help to enhance the Group's product features and competitiveness. Our spandex business is also expected to bring significant returns for the Group. I am fully confident of the business and growth prospects of the Group.

I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, customers, business partners and suppliers, and also for the dedication and hard-working of our directors and staff members in last year.

HUI Kee Fung

Chairman

Hong Kong, 29 April 2004